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ALBERTA  
LEGISLATURE

3/ REPORT OF THE

Office of the  
**AUDITOR  
GENERAL**

FOR THE YEAR ENDED MARCH 31, 1981







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Alberta Legislature  
Office of the Auditor General

Mr. W. L. Mack, M.L.A.  
Chairman of the Select Standing Committee  
on Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1981, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of The Auditor General Act.

Edmonton, Alberta  
February 26, 1982

A handwritten signature in cursive script, appearing to read "D. W. Royen".

C.A.  
Auditor General



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# **REPORT OF THE AUDITOR GENERAL OF ALBERTA**

## **FOR THE YEAR ENDED MARCH 31, 1981**

### **1. INTRODUCTION**

#### **1.1 FOREWORD**

- 1.1.1 This is the third annual report of the Auditor General to the Legislative Assembly of Alberta. It covers the fiscal year of the Crown ended March 31, 1981, albeit that much of the audit work was performed since that date.

The purpose of this report is to fulfill the reporting requirements of section 19 of The Auditor General Act, Chapter 56, Statutes of Alberta 1977. The Auditor General Act is reproduced in Appendix I to this report.

- 1.1.2 This report is divided into five sections:

Section 1 — contains a general introduction and comments on certain matters contained in a special report by the Auditor General on the Alberta Heritage Savings Trust Fund issued in February 1982.

Section 2 — contains observations and recommendations emanating from audits covering the fiscal year under review.

Section 3 — contains a commentary on the Public Accounts of the Province, including the Consolidated financial statements of the Province, and the financial statements of the General Revenue Fund and the Alberta Heritage Savings Trust Fund.

Section 4 — contains a description of the work, organization and activities of the Audit Office and, in particular, an elaboration on the philosophy of management control systems auditing.

Section 5 — contains a cross-referenced tabulation of the recommendations made throughout the report.

- 1.1.3 Based on the work performed by his Office, it is the opinion of the Auditor General that the financial affairs of the Province of Alberta were administered in a generally satisfactory manner during the 1980-81 fiscal year. This overall opinion does not detract from the significance of the audit observations and related recommendations contained in this report. A number of these recommendations for improvements to the design and operation of financial and management control systems have been communicated to and concurred with by management which has undertaken to take corrective action. Furthermore, since it is neither practical nor necessary to audit all control systems every year, some are audited on a cyclical basis. This overall opinion, therefore, relates only to those systems audited during the 1980-81 fiscal year.

- 1.1.4 The Auditor General acknowledges with gratitude, the excellent co-operation and assistance extended by management and staff of departments, funds and Provincial agencies, to members of the Audit Office and its agents during the course of their work. Furthermore, in accordance with section 19(1)(b) of The Auditor General Act, it can be reported that the Auditor General received all the information, reports and explanations required to carry on the work of the Audit Office except in the instances described in sub-section 2.6 of this report.

#### **1.2 SPECIAL REPORT ON THE ALBERTA HERITAGE SAVINGS TRUST FUND**

- 1.2.1 In December 1981, pursuant to section 17(2) of The Auditor General Act, the President of the Executive Council requested that the Auditor General prepare a special report on certain matters related to The Alberta Heritage Savings Trust Fund (Heritage Fund). In accordance with that request, a report was submitted to the Speaker of the Legislative Assembly and made public on February 25, 1982.

The following matters dealt with in the special report are considered worthy of inclusion in this annual report:



## **Special Report Opinion**

- 1.2.2 In view of the specific subject matter of the special report, the Audit Office performed additional audit procedures on the Heritage Fund's marketable securities. This work concentrated on the three years ended March 31, 1981, during which the "\$60 million loss" was incurred. This additional work was in excess of what would normally be sufficient to support an audit report in accordance with generally accepted auditing standards.

The following examples of audit procedures, portions of which were performed during annual audits, illustrate the nature and extent of certain of the work performed:

- Documentation supporting purchases and sales of bonds was examined for adequacy, completeness and approvals for all transactions during the three years ended March 31, 1981.
- The computation of all gains and losses which arose on sales of bonds during the three years ended March 31, 1981 was verified.
- Prices paid and received for all bonds purchased and sold during the three years ended March 31, 1981 were compared with market prices obtained from a leading brokerage firm.
- Purchase and sale transactions were subjected to analysis and correlation testing in attempts to detect patterns or trends indicative of malfeasance during the three years ended March 31, 1981.
- In addition to normal year-end physical inspections, the physical existence of marketable securities held as residual funds was verified by physical inspection or third party confirmation at January 31, 1982, the latest practical date prior to issue of the special report.

Based on the work of the Audit Office during the period from the Heritage Fund's establishment in 1976 to the present time, the Auditor General can state that in his opinion:

- (a) no malfeasance, including fraud or collusion, has occurred relating to marketable securities owned by the Heritage Fund;
- (b) satisfactory action has been taken by the Government respecting audit observations and recommendations made pursuant to The Auditor General Act in connection with marketable securities owned by the Heritage Fund;
- (c) marketable securities owned by the Heritage Fund were adequately safeguarded and accounted for.

Although expressing the above opinion was the primary purpose of the special report, it also explained the circumstances which resulted in the "\$60 million loss", described action taken in response to Heritage Fund audit findings, provided information on the performance of the Fund and contained the following observations and recommendations relative to its past and future accountability to the Legislative Assembly.

## **Accountability of the Heritage Fund**

- 1.2.3 The way in which the Heritage Fund is accountable to the Legislative Assembly was established when The Alberta Heritage Savings Trust Fund Act was passed in 1976. At that time, it followed the normal accountability practice for funds of its kind. Since then, however, the Heritage Fund has grown considerably to the extent that it is now a very significant part of the Alberta "public purse". Since it appears likely that this growth will continue, it may be an opportune time to consider how the accountability of the Heritage Fund to the Legislative Assembly could be improved for the future.

Parliamentary systems modelled after the Parliament of Westminster embody two underlying principles relating to control of the "public purse" by the elected representatives of the people. In "The Public Purse" (Toronto: University of Toronto Press, 1962), Norman Wood defined these principles as follows:

Wood



- (1) The executive (government) should have no income which is not granted it, or otherwise sanctioned, by Parliament.
- (2) The executive should make no expenditures except those approved by Parliament, or ways approved by Parliament.

The Alberta Legislature inherited the Westminster Parliamentary system. An important feature of the system in Alberta is that each year, the Government presents its expenditure plans for the next fiscal year to the Legislative Assembly as a budget and an Appropriation Bill. Amounts contained in the Bill are supported by detailed information which facilitates debate during the stages of the Bill prior to approval. Eventually, the Bill is approved by the Legislative Assembly and, after receiving Royal Assent, becomes an Appropriation Act.

Implicit in an Appropriation Act is that the funds provided by the Legislature are held in trust by the Government and are spent only for the purposes for which they were approved. Furthermore, Appropriation Acts require accountability since they state that "The full application of all money expended under this Act shall be accounted for."

The main financial accountability is provided by the Public Accounts which are audited by the Auditor General before they are presented to Members of the Legislative Assembly (and in particular, to Members of the Select Standing Committee on Public Accounts).

This then, is the accountability cycle through which the Legislative Assembly exercises control over the "public purse".

However, not all revenues and expenditures are subjected to this detailed annual review and approval process by the Legislative Assembly. Still following the traditional Westminster model, the Legislative Assembly has, through certain statutes, delegated authority to the Government to:

- increase or decrease previously authorized revenues by issuing or changing regulations (i.e. — by Order in Council).
- borrow funds, usually subject to specified limitations.
- expend monies from funds collected and held or borrowed by certain Provincial agencies.
- invest certain monies received and held, subject to conditions imposed by the authorizing statute.
- increase previously authorized expenditures on the basis of Special Warrants which are ratified subsequently by the Legislative Assembly as Supplementary Estimates.

In all of the foregoing instances, although the Legislative Assembly sanctions these transactions by way of blanket statutory provisions, they are not subject to the same detailed 'before-the-fact' annual review and approval process by the Assembly as are expenditures under Appropriation Acts. Accordingly, the control exercised by the Legislative Assembly over this portion of the "public purse" could be said to be weaker than that exercised over expenditures subject to annual review and approval.

When the Heritage Fund was established, its Act created a legislative framework which adhered to the principles that had applied to the General Revenue Fund in Alberta since 1905. Special Appropriation Acts are required, each year, to authorize transfers to the Heritage Fund of 30% of the Province's non-renewable resource revenue, and to authorize investments (expenditures) under the Fund's Capital Projects Division. To this extent, the transactions of the Heritage Fund are subject to an annual review and approval process by the Legislative Assembly.

However, the Act provides that the Capital Projects Division shall not exceed 20% of the assets of the Heritage Fund. Consequently, investments representing at least 80% of the assets of the Fund are made under blanket statutory provisions. The dramatic increase in the size of the Heritage Fund, in recent years, has resulted in a significant portion of the total Alberta "public purse" being expended under statutory provisions, rather than being reviewed and approved annually by the Legislative Assembly.

It is acknowledged that Heritage Fund investments in other than Alberta Government entities cannot be subject to prior approval on an individual transaction basis by the Legislative Assembly since, normally, they are subject to prior negotiation. However, of \$4.5 billion invested in the Alberta Investment Division at March 31, 1981, \$4.0 billion were in debentures issued by Alberta Agricultural Development Corporation, Alberta Government Telephones Commission, Alberta Home Mortgage Corporation, Alberta Housing Corporation, Alberta Municipal Financing Corporation and Alberta Opportunity Company. Furthermore, the Alberta Investment Division also holds the Province's \$184 million investment in the Syncrude Project. To the extent that these Alberta Government entities expend Heritage Fund monies, the Heritage Fund could be considered a facilitator of Government policy.

In view of the anticipated continued growth of the Heritage Fund, it is suggested that accountability to the Legislative Assembly for the expenditure of Heritage Fund monies would be improved in future if prior review and approval by the Assembly were required each fiscal year for proposed funding of government entities from the Heritage Fund. This would improve the control exercised by the Legislative Assembly over investments under the Alberta Investment Division by providing Members with an opportunity to review, debate and approve funding on an annual basis.

Following the end of each fiscal year, the financial affairs of government entities receiving Heritage Fund monies would be subject to scrutiny by the Select Standing Committee on Public Accounts and/or the Select Standing Committee on The Alberta Heritage Savings Trust Fund Act (Heritage Committee). This would have the effect of bringing the use of approximately 60% of the Heritage Fund's assets under accountability cycle controls similar to those exercised by the Legislative Assembly over expenditures from the General Revenue Fund.

Recommendation: (No. 1)

*It is recommended that consideration be given to amending The Alberta Heritage Savings Trust Fund Act to require investments in Provincial Corporations and other government entities, under the Alberta Heritage Savings Trust Fund's Alberta Investment Division, to be first appropriated from the Trust Fund by an Act of the Legislature.*

Recommendation: (No. 2)

*It is recommended that the Select Standing Committee on The Alberta Heritage Savings Trust Fund Act exercise similar powers to those of the Select Standing Committee on Public Accounts with respect to the financial affairs of Provincial Corporations and other government entities which borrow from the Alberta Heritage Savings Trust Fund.*

- 1.2.5 The Auditor General's annual reports to the Legislative Assembly for both the 1978-79 and 1979-80 fiscal years stressed the desirability and importance of an effective internal audit function. Considerable benefits could be derived from an internal audit group within the Treasury Department to monitor compliance with systems, controls and investment strategy, and also, report on the performance of the various divisions of the Heritage Fund on a periodic basis. For such an internal audit group to possess the necessary influence and independence, it should report directly to the Deputy Provincial Treasurer.

Recommendation: (No. 3)

*It is recommended that the Treasury Department establish an internal audit group, with an appropriate mandate and reporting structure, to review the administrative and performance measurement systems of the Alberta Heritage Savings Trust Fund on a continuing basis.*

- 1.2.6 The primary purposes of the Heritage Committee are to review the Heritage Fund's annual reports and to report and make recommendations concerning the Fund's investments. A useful exercise when reviewing the results of an investment entity like the Heritage Fund, is to compare performance ratios, such as rates of return and yield on investments, with those achieved by other similar entities. Similarly, comparative information of this nature would be of value to management of the Heritage Fund when attempting to evaluate both its own and the Fund's performance. The most convenient way of achieving this is through the Treasury Department engaging the services of an independent firm of investment analysts which



specializes in the collection and provision of investment performance statistics. The Auditor General retained such a firm to obtain information contained in the special report.

Recommendation: (No. 4)

*It is recommended that the Treasury Department retain the services of an independent investment analyst capable of providing regular comparisons of the performance of the Heritage Fund with the performance of similar investment entities. Furthermore, consideration could be given to making the performance comparison information obtained from the independent investment analyst available to the Select Standing Committee on The Alberta Heritage Savings Trust Fund Act.*

- 1.2.7 Concerns were expressed on how Members of the Heritage Committee can be assured that the Heritage Fund's financial control systems are adequate and effective. In this regard, it should be noted that The Auditor General Act requires the Auditor General to include, in his annual report to the Legislative Assembly, all significant weaknesses and deficiencies in accounting and management control systems which have been observed unless, in his opinion, they have been or are being rectified. Accordingly, if the Auditor General's annual reports are silent on these matters relating to the Heritage Fund, it can be concluded that no such problems have been observed.

However, if it is believed that in view of the significance of the Heritage Fund, there is merit in providing more positive, visible and timely assurance to the Heritage Committee that the Heritage Fund's internal controls are adequate, consideration could be given to the following recommendation:

Recommendation: (No. 5a)

*It is recommended that each published annual report of the Alberta Heritage Savings Trust Fund contain a positive representation by the Provincial Treasurer relating to the adequacy of the Trust Fund's internal control system (See example in sub-section 1.2.8 of this report).*

Recommendation: (No. 5b)

*It is recommended that each published annual report of the Alberta Heritage Savings Trust Fund contain a report by the Auditor General on the reasonableness of the Provincial Treasurer's representation relating to the adequacy of the Trust Fund's internal control system (See example in sub-section 1.2.8 of this report).*

Recommendation: (No. 5c)

*It is recommended that the annual financial statements of the Alberta Heritage Savings Trust Fund and the Provincial Treasurer's representation relating to the adequacy of the Trust Fund's internal control system, together with the reports of the Auditor General on both of these, be subject to review each year by the Audit Committee established pursuant to section 21 of The Auditor General Act before the Trust Fund's annual report is published.*

Recommendation: (No. 5d)

*It is recommended that the Select Standing Committee on The Alberta Heritage Savings Trust Fund Act meet at least once each year to consider the financial statements of the Alberta Heritage Savings Trust Fund and the Provincial Treasurer's representation relating to the adequacy of the Trust Fund's internal control system, together with the reports of the Auditor General on both of these, and that the Provincial Treasurer and the Auditor General be in attendance.*

- 1.2.8 If recommendations No. 5a and No. 5b above are adopted, it is envisaged that the Provincial Treasurer's report, and the Auditor General's report thereon, will be in a form similar to the following:

Management Report on the Internal Control System of the Alberta Heritage Savings Trust Fund for the year ended March 31, 198X.

The Treasury Department maintains an internal control system to provide reasonable assurance that Alberta Heritage Savings Trust Fund investments (other than deemed

assets) are safeguarded against loss, and that the financial records are reliable for preparing financial statements and other accountability information. The limitations inherent in the effectiveness of any system of internal control should be recognized when considering this Management Report. It should also be recognized that internal controls are subject to the concept of reasonable assurance which is based on recognition that the cost of a system of internal control should not exceed the benefits derived, and that evaluation of these factors requires estimates and judgements by management. The functioning of the accounting system, and the controls over it, are under the general purview of the Provincial Treasurer. Systems and controls are evaluated by an extensive program of internal audits and by the Auditor General. The Provincial Treasurer believes that the system of internal accounting controls provides reasonable assurance that Alberta Heritage Savings Trust Fund:

- purchases and sales of investments are properly authorized in accordance with the Alberta Heritage Savings Trust Fund Act,
- purchases and sales of investments conform to investment strategies promulgated by senior management,
- purchases and sales of investments are properly recorded and,
- investments are protected by adequate physical safeguards.

All material weaknesses in internal control systems identified by the Auditor General have been corrected, or, (have not been corrected) or, (are being corrected) or, (certain weaknesses have been corrected while other weaknesses have not been corrected because it is believed that the cost of correcting them would exceed benefits derived).

Auditor's Report on the Management Report on the Internal Control System of the Alberta Heritage Savings Trust Fund for the Year ended March 31, 198X.

Based on a study and evaluation of the internal control system of the Alberta Heritage Savings Trust Fund for the fiscal year ended March 31, 198X, I concur with the description of the systems and controls in the report by management (or, based on my study and evaluation of the internal control system of the Alberta Heritage Savings Trust Fund, I believe that the system has the following uncorrected material weaknesses not described in the report by management ...) (or, other disagreements with the description of the system and controls in the report by management) (or, a description of uncorrected material weaknesses found if there is no report by management).

Notwithstanding the above, there is an inherent risk that errors can result from personal factors and that control procedures can be circumvented by collusion, or overridden. Furthermore, projection of an evaluation of internal control to future periods is subject to the risk that changes in conditions may cause procedures to become inadequate and the degree of compliance with them to deteriorate.

While there is a danger of compromising specific internal controls by publicizing the details of such controls, as would be the case if management letters were to be tabled, the foregoing approach would allow the Select Standing Committee to question the Provincial Treasurer and the Auditor General on the subject and to determine the significance of any differences of opinion between them. A further advantage would be that these review procedures would occur a considerable time before publication of the Auditor General's annual report to the Legislative Assembly for the fiscal year under review.



## 2. SUMMARY OF AUDIT OBSERVATIONS

### 2.1 INTRODUCTION

#### **Reporting Criteria**

2.1.1 In preparing this report, judgement was exercised as required by two specific sections of The Auditor General Act. Section 25 of the Act does not require the report to include matters which, in the opinion of the Auditor General, are immaterial or insignificant. Section 19(5) of the Act allows the Auditor General to refrain from reporting deficiencies in systems and procedures otherwise subject to report under sub-sections 19(2)(d) or (e) when such deficiencies, in his opinion, have been or are being rectified. These two provisions allow the report to concentrate on more important reportable matters.

2.1.2 When deciding whether or not to exercise the powers contained in section 19(5) of the Act, the circumstances surrounding each potentially reportable systems deficiency are considered. Management assurances that measures are being, or are to be, taken to remedy systems deficiencies influence these decisions. In this manner, the leverage provided by this section of the Act is used to encourage management to take corrective action on a timely basis.

In circumstances where the powers under section 19(5) of the Act have been exercised, but where it is subsequently found that management has not taken remedial action to eliminate systems deficiencies, or such action has been ineffectual, then the matter will be included in the report to the Legislative Assembly for the following year, even where further assurances are received. There are a number of these situations to report for 1980-81 which are included in a separate sub-section of this report (see sub-section 2.5 — Uncorrected Systems Weaknesses and Deficiencies Originally Detected in Previous Years).

Notwithstanding the above, it should not be concluded that management has not begun to take steps, or is unwilling to take steps, to rectify systems deficiencies included in this report. Where systems deficiencies are sufficiently prevalent, they are included herein even though steps are being taken, or have been taken, to rectify them.

2.1.3 Several observations contained in this section of the report are continuations of matters contained in the Auditor General's report to the Legislative Assembly for previous years. Other observations are included only to provide information concerning the disposition of recommendations included in previous years' reports. Where this report contains no mention of matters of concern included in previous reports, it may be concluded that measures have been taken or events have occurred to eliminate those concerns.

#### **Audit Recommendations**

2.1.4 In the Auditor General's annual reports to the Legislative Assembly for previous fiscal years, formal recommendations were consecutively numbered and a complete tabulation of all recommendations was included in the final section of the reports. The same reporting format has been used in the 1980-81 report.

For the 1980-81 and future annual reports, it is intended that while a recommendation contained in a previous year's annual report remains unimplemented, or where circumstances have not changed to render the recommendation inapplicable or redundant, the recommendation together with the rationale therefor will be included in successive annual reports. Furthermore, to enable the reader to determine how long a recommendation has remained outstanding, the fiscal year of the annual report in which the recommendation was first made will be noted in parenthesis above and to the right of the repeated recommendation. Recommendations will be similarly dated in circumstances where, although the wording has changed, the main thrust of the recommendation remains the same.

The 1979-80 Auditor General's annual report was laid before the Legislative Assembly on April 22, 1981. Since several of the recommendations contained therein were of general or broad application, they had not been communicated to management prior to the issuance of the report. In addition, many of the recommendations in that report required discussion and policy

decisions by management and some necessitated legislative changes and/or systems development and implementation, all of which required further time. Therefore, it is unreasonable to expect that all matters previously reported would be satisfactorily dealt with in the time available.

In October 1981 the Provincial Treasurer issued a report to the Select Standing Committee on Public Accounts (reproduced in Appendix II of this report) which contained responses to each of the 55 specific recommendations in the Auditor General's report for the 1979-80 fiscal year. Many of those responses are quoted or referred to throughout this report. Although some responses indicated that the Government was not in full agreement with all of the 1979-80 report recommendations, and in some cases the responses appear somewhat optimistic, the Auditor General was generally satisfied with the Provincial Treasurer's report.

### **Communication of Audit Observations**

- 2.1.5 At the conclusion of all audits, formal meetings (exit conferences) are held to discuss audit findings and recommendations. Audit exit conferences are attended by Audit Office representatives and senior financial and other management officials of the auditee. The principal purposes of these meetings are to ensure that management is fully apprised of all matters arising from the audit, to discuss proposed recommendations for corrective action and to provide an opportunity for comments by management prior to the issuance of the auditor's report on the financial statements and management letter. Minutes of matters discussed are prepared by the Audit Office and subsequently circulated to all who attended the meetings, thereby minimizing the risk of misunderstandings in connection with matters raised or action promised.

Subsequently, audit observations and recommendations are incorporated into a "management letter" from the Auditor General to the appropriate deputy minister or senior executive officer. Copies of all management letters are forwarded to the minister responsible for the audit entity and the Secretary to the Treasury Board, except for Provincial agencies exempt under section 2(5) of The Financial Administration Act, 1977.

### **General**

- 2.1.6 When reading a report of this nature, it is important to recognize that it is, in many respects, a report by exception. Its purpose is to bring to the attention of the Legislative Assembly those matters set out in section 19 of The Auditor General Act which have been observed and are considered significant. Reporting in this manner may unduly emphasize shortcomings without giving credit for the great majority of circumstances in which no significant irregularities were observed.
- 2.1.7 In the remainder of this section of the report, repeated references are made in audit observations and recommendations, and in management letter excerpts, to the Treasury Department's Manual of Financial Administration. This manual was issued by the Office of the Controller pursuant to section 13 of The Financial Administration Act, 1977, under which authority is delegated by the Provincial Treasurer to prescribe administrative procedures respecting financial records and accounting systems and the receipt and disbursement of public money. The Manual of Financial Administration complements the Alberta Financial Information System (AFIS) User Manual which is designed for use by senior administrators and financial officers in developing an overall system of internal control for their departments.

### **Reservations in Auditor's Reports on Financial Statements**

- 2.1.8 The audit observations published in this report represent only a small portion of the annual activities of the Audit Office. It is believed that priority must always be given to the audit work necessary to issue auditor's opinions on the annual financial statements of Provincial agencies, regulated funds, revolving funds, the General Revenue Fund and other organizations of which the Auditor General is auditor. Most of these audited financial statements collectively comprise the Public Accounts of the Province which, in turn, are the principal evidence of financial accountability available to the Legislative Assembly.

The Auditor General expressed reservations in his opinions on the financial statements of eleven entities audited pursuant to section 12(1a) of The Auditor General Act (reported as required by section 19(2) of the Act):

- Four reservations were because certain public colleges had not disclosed on their balance sheets assets transferred from the Department of Advanced Education and Manpower (See sub-section 2.3.8 of this report).
- Three reservations resulted from an inability to verify the completeness of reported revenue receivable by way of donations.
- Two reservations were because public colleges included in accounts payable the value of purchase orders issued for goods and services not received in the current year.
- One reservation was due to there being insufficient information to verify both the adequacy of certain reserves and an estimated liability for future claims' costs.
- One reservation resulted from there being insufficient information to verify the ownership and value of certain fixed assets acquired including those for research projects.

In all other cases, the Auditor General was able to report, without reservation, that the financial statements examined presented fairly the financial position of the entity at March 31, 1981 (or such other accounting period within the year ended March 31, 1981), and the results of operations for the periods covered by the statements, in accordance with generally accepted accounting principles or other disclosed basis of accounting.



2.2 INADEQUATELY SAFEGUARDED ASSETS AND NON-COMPLIANCE WITH LEGISLATION  
(Reported pursuant to sub-sections 19(2)(a), (b) and (c) of The Auditor General Act).

2.2.1 DEPARTMENT OF ENERGY AND NATURAL RESOURCES — MINERAL REVENUE AUDITS

During the 1980-81 fiscal year, the Department of Energy and Natural Resources collected Provincial royalties on the production of natural gas and natural gas by-products in the amount of \$1.9 billion. The Department provides royalty payors with forms on which to record resources produced, royalties payable thereon and incentive exemptions and allowances claimed. These forms are then returned to the Department together with remittances for the amounts due to the Province.

The accuracy of certain of the figures reported by royalty payors can be checked by the Department from other sources. However, without recourse to the payors' financial and production records, some figures can not be verified, nor can the payors' interpretation of prevailing legislation and regulations be evaluated.

Accordingly, to enable the Department to be satisfied that it has collected the royalties on natural gas and natural gas by-products to which the Province is entitled, it must perform periodic audits of the appropriate records of royalty payors. The Department has access rights and has established a Mineral Revenues Division Audit Section to perform the audit function. However, in the opinion of the Auditor General, the audit coverage achieved by the Audit Section during the 1980-81 fiscal year did not provide the Department with a sufficient level of satisfaction relative to royalties collected. During that fiscal year, only thirteen gas royalty audits, of limited scope, were completed by the Department. Clearly, that was insufficient.

In order to assist the Department with its gas royalty auditing, the Auditor General provided qualified audit staff to plan and conduct, jointly with the Department, two gas royalty audits. The scope of these two audits represented an expansion of that employed on previously conducted audits. Both these audits revealed that the royalty payor had underpaid gas royalties due to the Province. One audit of two gas plants operated by an oil company revealed underpayments of \$297,000 over a one year period. The principal reasons for these underpayments were clerical reporting errors and misinterpretation of regulations concerning the eligibility of marketing costs and federal excise tax as deductions allowable in the computation of royalties payable on propane and butane. A further matter of concern was that there were indications that other royalty payors were also misinterpreting regulations in a similar manner.

Following the joint audits, the Auditor General reported to the Deputy Minister, Energy Resources that, based on audit findings, it would appear that a properly planned and executed audit program by the Department should be able to identify significant underpayments of gas royalties due to the Province. Furthermore, the Auditor General suggested that the increased royalties which may be collectable would, many times over, pay for the cost of administering the audit program.

It should be noted that although the above comments relate to audits of payors of natural gas and natural gas by-products royalties, it is equally important that the Department's audit coverage extends to the records of all non-renewable resource royalty payors.

During the 1981-82 fiscal year, the Mineral Revenues Division Audit Section has been substantially re-organized. Additional audit staff have been acquired and the number of audits performed has increased substantially. The value of this increased audit activity is illustrated by the fact that four of the audits identified royalty underpayments totalling approximately \$7 million.

It should be noted that the size and technical complexity of the operations of many royalty payors make it essential the Department's royalty auditors combine formal auditing training with knowledge of the resource industry and its regulations. Otherwise, the Department's Audit Section will not be effective.



Recommendation: (No. 6)

*It is recommended that the Department of Energy and Natural Resources establish a policy governing the frequency with which it will audit the records on non-renewable resource royalty payors to ensure the accuracy of royalties collected. Such policy should require the records of major payors to be audited on a cyclical basis, and that all payors be audited at least once during a given number of years.*

Recommendation: (No. 7)

*It is recommended that the Department of Energy and Natural Resources ensure that its Mineral Revenues Division Audit Section has sufficient resources to enable it to audit the appropriate records of royalty payors in accordance with the Department's established policy thereon. To be effective, these audits must be properly planned and executed in accordance with the general and examination standards of Generally Accepted Auditing Standards (C.I.C.A. Handbook — section 5100).*

Recommendation: (No. 8)

*It is recommended that provision be made in legislation to provide the Auditor General with access rights, similar to those of the Department of Energy and Natural Resources, to the appropriate records of organizations liable to pay royalties, for the sole purpose of joining, at his discretion, any Departmental audit in process. This will enable him to evaluate the adequacy of auditing performed by the Mineral Revenues Division Audit Section.*

## 2.2.2 DEPARTMENT OF THE ENVIRONMENT — LAND ACQUISITION AND ADMINISTRATION

During the annual audit of the Department of the Environment for the 1980-81 fiscal year, the following matters were observed relating to the Department's systems for acquiring and administering real property:

1. Several years ago, the Department began acquiring land for use as transportation and utilities corridors around Edmonton and Calgary. These corridors are called Restricted Development Areas (R.D.A.'s). When the Department's Land Assembly Division negotiates to acquire land, it often uses an "offer to sell" form which is signed initially by the vendor and approved by the Minister of the Environment.

On May 1, 1980, after negotiating for several months, the Department received a signed "offer to sell" form from the owner of a 115 acre parcel of land in the Edmonton R.D.A. The sale price offered was \$2,422,000. However, shortly thereafter, and before the purchase transaction could be completed, the Department received a communication from another individual claiming to be the new owner of the land and requesting that the Department continue acquisition negotiations with him.

The Department considered contesting the claim of the new owner on the grounds that it had a prior offer for sale from the original owner. However, in an opinion provided to the Department by legal counsel, it was stated that the original offer was not legally enforceable as it was not made under seal and there was no consideration. The Department acknowledged this as an inadequacy in its procedures to acquire land and, therefore, commenced negotiations with the new owner and eventually purchased the land for \$3,459,000.

2. The Department administers the land it purchases within the R.D.A.'s. Certain of this land has buildings on it, and since the Department did not have systems to administer such properties, it engaged the services of a property management company to do so on its behalf. However, the Department's accounting systems failed to anticipate revenues derived from these properties. For example, revenue for 1980-81 in the amount of \$42,396 from a hotel purchased in the Calgary R.D.A. was not remitted to the Department during 1980-81, and this amount was not recorded as receivable by The Department at March 31, 1981.

While examining transactions for compliance with legislative authority, the Audit Office was unable to satisfy itself that the Department of the Environment has authority to administer all real property it currently administers. Section 9(2) of The Department of the Environment Act states "land acquired under this section shall be under the administration of the Minister of Energy and Natural Resources unless, before or after the acquisition, the Lieutenant Governor in Council, by order, directs that it is under the administration of the Minister of the Environment or some other Minister". As no "order in council" existed directing the Minister of the Environment to administer any lands purchased in the R.D.A.'s, it appears that the Department of the Environment did not have the authority to administer such lands during the audit period.

The matters above evidence deficiencies in the Department's systems and procedures to acquire and administer real property. Furthermore, the Department indicated in subsequent discussions with the Audit Office that prompt legal advice was not always available when needed. However, it was noted that subsequent to the audit, the Department requested the Department of the Attorney General to engage a consultant to advise its Land Assembly Division on matters concerning real property transactions. In addition, a firm of management consultants was engaged to review the Division's operating procedures.

Recommendation: (No. 9)

*It is recommended that the Department of the Environment conducts a comprehensive review of its systems, practices and procedures for the acquisition and administration of real property. It is further recommended that appropriate legal advice be obtained during the course of this review, particularly respecting the wording on legal forms to be used in the systems. It is acknowledged that the Department has taken initial steps to undertake such a review.*

Recommendation: (No. 10)

*It is recommended that in view of the nature of transactions effected on a day to day basis by the Land Assembly Division of the Department of the Environment, arrangements be made to ensure that appropriate legal advice is available when needed.*

Recommendation: (No. 11)

*It is recommended that the Department of the Environment ensures that it has legislative authority to administer the real property it should administer.*

## 2.2.3 DEPARTMENT OF SOCIAL SERVICES AND COMMUNITY HEALTH — FEDERAL COST-SHARING CLAIM

During an examination of federal cost-sharing claims at the Department of Social Services and Community Health for the 1978-79 fiscal year, it was noted that a claim in the amount of \$482,998 had been rejected by the Government of Canada. The claim was for costs covering a three year period, relating to Native Counselling Services ostensibly covered by a federal/provincial agreement dated July 10, 1974.

The Auditor General's report to the Legislative Assembly for the 1978-79 fiscal year noted that the Department apparently had displayed tardiness in submitting the claim, and when it was rejected by the Government of Canada, had too readily discontinued attempts to obtain settlement. In addition, the reports for both the 1978-79 and 1979-80 fiscal years recommended that where costs eligible for cost-sharing under federal/provincial or other agreements are incurred in more than one department of Government, procedures should be established to ensure adequate liaison when submitting claims.

Although the Province of Alberta is still negotiating with the Government of Canada for recovery of the original claim, procedures for ensuring liaison when submitting claims under federal/provincial cost-sharing agreements have been implemented. Accordingly, this recommendation is not repeated in this report.



## 2.2.4 DEPARTMENT OF SOCIAL SERVICES AND COMMUNITY HEALTH — PUBLIC ASSISTANCE OVERPAYMENTS

The Department of Social Services and Community Health provides social aid to families and individuals in need under the Social Allowance Program. For the 1980-81 fiscal year, this program's budget amounted to \$187.7 million.

During the audit of the Department for the 1980-81 fiscal year, it was observed that amounts owing to the Department resulting from overpayments of social allowances had increased significantly. At March 31, 1981, social allowance overpayments receivable amounted to \$11,677,000 compared with \$8,315,000 recorded at March 31, 1980. In addition, at March 31, 1981, 117 instances were noted where the amount owing by an individual exceeded \$5,000.

The Audit Office concluded that many of these overpayments were due to weaknesses and deficiencies in the systems and procedures used to approve and process social allowance payments. Among the more serious of these were the following:

1. Data decision sheets were not processed quickly enough to prevent social allowance payments being made on the basis of outdated information.

Data decision sheets are forms used to record the information necessary to calculate social allowance payments. These forms are prepared at local district offices and forwarded to the Department's central office where the information they contain is input to the computer system which ultimately produces the cheques.

Where a recipient continues to be eligible for social allowance, the system will generate monthly cheques based on the information contained on the original data decision sheet. When a recipient ceases to be eligible, or the amount for which he or she is eligible changes, the local district office must submit the necessary information to the central office on a replacement data decision sheet.

Overpayments occur when replacement data decision sheets are not input to the computer system in time to stop or amend the cheques. This can be caused either by excessive time elapsing between preparation of replacement data decision sheets and their input to the computer systems, and/or early cut-off dates for input of data.

2. Information contained in social allowance recipients' files was incomplete or outdated.

Overpayments occur where social workers do not review and update (and prepare appropriate replacement data decision sheets) on a sufficiently frequent basis. Similarly, overpayments occur where social workers have not verified the accuracy of information provided by social allowance recipients.

3. Although it is acknowledged that circumstances may exist which render recovery impracticable, follow-up procedures to seek recovery of amounts overpaid to social allowance recipients appeared ill-defined and were not exercised consistently or energetically. In particular, many social workers appeared reluctant to involve themselves in collecting overpayments and the special overpayments collection unit was not large enough to pursue all overpayments.
4. A significant number of social allowance cheques, which recipients had reported as being lost or stolen, were subsequently presented for payment, even though replacement cheques were issued and paid. In addition to resulting in overpayments, the volume of subsequently presented "stop payment" cheques caused certain financial institutions to be critical of the Department.

The foregoing and other audit findings were communicated to the Acting Associate Deputy Minister of Social Services and Community Health in a management letter from the Auditor General dated January 11, 1982.

### Recommendation: (No. 12)

*It is recommended that the Department of Social Services and Community Health strengthen its procedures to minimize the incidence of overpayments to social allowance recipients. Areas requiring particular attention are:*



- *procedures to ensure prompt submission and processing of data decision sheets.*
- *procedures to ensure that information contained in social allowance recipients' files is complete and up-to-date.*
- *procedures to follow-up and recover social allowance overpayments.*
- *procedures to ensure that replacement social allowance cheques are issued only in valid situations.*

It was also observed during the audit that the Department has adopted the practice of recording repayments of overpayments on active social allowance accounts as current year's expenditure refunds, while repayments on inactive social allowance accounts are treated as prior years' expenditure refunds. The Audit Office acknowledges that minor inaccuracies resulting from this practice are more than compensated for by reduced administrative costs. However, the Department has also adopted the practice of reducing its year-end overpayments receivable and the allowance for doubtful accounts by an amount equal to the value of one-third of the year-end receivable. This reduction represents an estimate of the overpayments relating to active public assistance accounts. The Audit Office does not agree with the practice of reducing year-end receivables in this manner, because of the effect it has on the Public Accounts of the Province.

*Recommendation: (No. 13)*

*It is recommended that the Department of Social Services and Community Health discontinue the accounting practice of reducing the year-end social allowance overpayments receivable and the allowance for doubtful accounts by an amount equal to one-third of the year-end receivable.*

## 2.2.5 EXPENDITURES IN EXCESS OF AUTHORIZED LIMITS

At the end of the 1980-81 fiscal year, ten Government departments reported accumulated annual expenditures of \$3.8 million in excess of amounts provided by The Appropriation Act, 1980.

The Appropriation Act, 1980 was assented to on May 22, 1980 and constitutes the Legislative approval for expenditures from the General Revenue Fund for the 1980-81 fiscal year. Section 3 of the Act states, in part, that "From and out of the General Revenue Fund, there may be paid and applied a sum not exceeding, in the whole, \$5,309,251,538 . . ." Furthermore, schedules to the Act list the amounts (supply votes) making up this total which are provided for each program funded by the General Revenue Fund.

Since the ten departments referred to in the opening paragraph exceeded the expenditure limits on one or more of their supply votes without obtaining special warrants to cover the overexpenditure, they were in contravention of The Appropriation Act, 1980. The ten departments, together with the amounts by which their supply votes were overexpended, are listed in sub-section 3.3.12 of this report.

Pursuant to section 32(4) of The Financial Administration Act, 1977, overexpenditures of supply votes may be paid and charged against the supply vote for the following fiscal year. Accordingly, the funds available to the ten departments under the appropriate 1981-82 supply votes will be reduced by the amounts by which the 1980-81 votes were overexpended.

As stated above, annual appropriation acts authorize a spending limit for each supply vote. However, the previously published Estimates of Expenditure further break down these amounts into sub-programs and five object of expenditure control groups. The Treasury Board has issued directives pursuant to The Financial Administration Act, 1977 which impose spending limits at the sub-program and object of expenditure levels. Despite these directives, many instances were observed where limits had been exceeded without prior approval by the Treasury Board.

Aside from constituting non-adherence to legislation and Treasury Board directives, the above practices weaken the legislative and financial controls inherent in the budgetary process. Accordingly, it is incumbent upon departmental management to ensure that systems are in place to prevent unauthorized overspending of supply votes and sub-program and object of expenditure control limits. Furthermore, the Office of the Controller should ensure that these systems are adequate and complied with.

In management letters to the ten departments at the conclusion of 1980-81 audits, the Auditor General drew attention to overexpenditures of supply votes and control limits and recommended establishment of systems to prevent recurrences of this nature. In addition, management letters to certain other departments noted that control limits had been exceeded.

Recommendation: (No. 14)

*It is recommended that, where necessary and appropriate, Government departments establish procedures to ensure that annual expenditures do not exceed authorized limits. Furthermore, the Office of the Controller and the Budget Bureau should institute procedures to ensure that Treasury Board directives relating to expenditure controls are complied with.*

## 2.2.6 FEDERAL SALES TAX

In most circumstances, the Province of Alberta is entitled to acquire goods for its own consumption at prices exclusive of Government of Canada sales tax. It sometimes happens, however, that contractors supply or use construction or other materials upon which federal sales tax has already been paid. In these situations, the Province is entitled to submit claims for recovery.

In the Auditor General's report to the Legislative Assembly for the 1978-79 fiscal year, it was observed that financial and other senior management officials in several departments and agencies were not fully conversant with federal sales tax regulations. In addition, the reports for both the 1978-79 and 1979-80 fiscal years recommended that a senior official in the Treasury Department be assigned the task of ensuring that Government officials in departments and agencies are provided with information concerning federal sales tax regulations and their implications, and should further be responsible for monitoring refund claims to ensure that they are properly and promptly submitted.

The Revenue Administration Division of the Treasury Department is now responsible for communications with Revenue Canada, Customs and Excise regarding application of the regulations to various agencies and the Manual of Financial Administration has been updated to deal with the responsibilities of departments to recover federal sales tax. Accordingly, since no instances of failure to reclaim federal sales tax were observed during the 1980-81 fiscal year, the recommendation is not repeated in this report.

## 2.2.7 FIXED ASSETS

The control exercised by the Government of Alberta over Provincially owned furniture and equipment is inadequate and ineffective.

The first requirement of a system to control fixed assets is the maintenance by the entity having custodianship over those assets of a list of all assets having a significant and continuing value. A second requirement is that the existence of assets be verified periodically by staff, who are independent of the custody and record keeping functions, verifying that all assets on the list exist and can be accounted for. Annual audits have repeatedly revealed numerous instances where lists of assets are either not maintained, or if they are, they are inaccurate and incomplete. In even more instances, no meaningful efforts are made to ensure that all assets



which should be on hand can be accounted for. In these situations, it is not possible for the entity or the Audit Office to identify those assets which may have been lost or stolen.

A fixed asset control system is not merely an accounting exercise but is an essential source of information to management for determining the adequacy of measures taken to provide for the physical security of assets.

The Treasury Department's Manual of Financial Administration prescribes guidelines for the design and maintenance of systems to record, account for and safeguard fixed assets. For this, the Office of the Controller is to be commended. However, there appears to be no commitment to ensure that these guidelines are complied with since rarely does the Office of the Controller act upon the numerous instances of non-compliance reported in Audit Office management letters.

The Auditor General's reports to the Legislative Assembly for both the 1978-79 and 1979-80 fiscal years contained a recommendation that efforts be made, in applicable areas, to improve fixed asset control systems by enforcing compliance with the appropriate section of the Treasury Department's Manual of Financial Administration. To illustrate the pervasiveness of the problem, the Auditor General's 1978-79 and 1979-80 reports included respectively fifteen and twenty-three management letter quotations covering situations where annual audits had revealed weaknesses and deficiencies in fixed asset control systems. A similar number of quotations could be included in this report resulting from 1980-81 audits.

Rather than include these quotations in this report, it was decided to make general observations, and to provide two examples considered illustrative of the problems which exist in many departments and agencies.

1. The University of Alberta was chosen as an example for the following two reasons:

- (1) The Audit Office is particularly concerned about the systems used to account for fixed assets by the Province's universities and colleges (see also sub-section 2.3.8 of this report) because of the effect they have on capital funding grants, and
- (2) The University of Alberta is considered a leader among educational institutions due to its size and the many years it has been in operation.

In addition, management of the University has always shown willingness to co-operate with the Audit Office in resolving audit concerns.

During the audit of the University for the 1980-81 fiscal year, deficiencies were observed in systems used to record, account for and safeguard fixed assets, many of which were reported at the conclusion of previous audits. For example, an increasing percentage of assets selected from the equipment listing for audit verification could not be located or were found at locations other than those indicated on the listing. Several selected assets did not have property tags attached to them, which made positive identification difficult. In addition, it was observed that some departments of the University maintained equipment listings independent of the University's central fixed asset record.

Discussions between Audit Office staff and University administrators indicated that the above noted concerns resulted largely from the placement of inventory responsibility with the user departments and with the updating of the equipment listing being done on a triennial basis. It was recognized, however, that a dichotomy existed between the reasons for the initial establishment of the equipment inventory and the control and safeguarding concerns raised by the Audit Office. For the second consecutive year it was recommended that representatives of the Audit Office meet with the University Comptroller and the Director of Technical Services to identify a course of action which would be mutually satisfactory.

The suggested meeting was held on November 5, 1981 and the University was asked to consider several Audit Office recommendations to improve internal control over fixed assets. In addition recommendations were made with a view to ensuring fair presentation of fixed asset values in the University's financial statements.



The University generally accepted the Audit Office's recommendations, subject to further review. In the opinion of the Auditor General, if the University is able to implement these recommendations, substantially all audit concerns related to fixed assets controls will be resolved.

2. The Department of the Environment was chosen as an example because it had made a serious attempt to resolve its fixed asset control system problems and, in doing so, had quantified some of the difficulties experienced.

In September, 1979, the Department of the Environment commenced a physical examination of its fixed assets and established a fixed asset inventory record. As part of this exercise, the Department compared the listing of fixed assets on hand, with its records of assets purchased or otherwise acquired. This revealed that fixed assets with an original cost of approximately \$2.3 million could not be located. It should be noted, however, that this figure included a considerable number of small value items which should not have been treated as fixed assets. With regard to items of greater value, the Department is unable to state, with any degree of certainty, whether these assets were lost, stolen or destroyed. However, it was also revealed that the Department had several hundred assets, with an estimated value of \$7.3 million, which could not be traced to the purchasing records.

The purpose of reporting this matter is not to suggest that the situation at the Department of the Environment is worse than elsewhere. On the contrary, the Department is to be commended for having made such a conscientious attempt to evaluate and remedy the deficiencies in its fixed asset system. Furthermore, its problems may have been compounded by the manner in which assets were transferred to the Department of the Environment from other departments when it was originally formed. However, it serves to illustrate a state of affairs which, it is confidently believed, exists in many departments and agencies where management appear to subscribe to the belief that "ignorance is bliss".

In a report to the Select Standing Committee on Public Accounts in October 1980, the Provincial Treasurer responded to the recommendations repeated below (1978-79: Nos. 13 and 15) stating that a common fixed asset inventory and control system will be made available to departments by the Department of Government Services for the 1981-82 fiscal year and that departments are implementing procedures for improved physical control of assets. In a similar report dated October 1981, it was again stated that improvements are being made to control systems and that efforts will be made to concentrate firstly on achieving control over high risk items and those areas where improved control can be achieved without incurring disproportionate administrative costs.

Although the responses acknowledge that the problem exists, they offer little in the way of a solution. In the main, efforts by the Controller's Office to improve these systems appear to have been limited to providing more detailed guidelines in the Treasury Department's Manual of Financial Administration. This is unlikely to have any effect since the problem exists not because the guidelines are deficient, but because many departments, funds and agencies fail to adhere to them. Similarly, the availability of a computer-based asset inventory and control system will have little effect unless it is used, and used properly. Several departments in which asset control problems currently exist operate computer-based systems of this nature.

It is acknowledged that situations often arise where the cost of administering an effective fixed asset control system will outweigh the benefits to be derived. In these circumstances it may be appropriate for the Office of the Controller to grant formal dispensations exempting an entity or a class of assets from application of the guidelines contained in the Manual of Financial Administration.

It is important that the Government reconsider its commitment to provide adequate control systems to record, account for and safeguard Provincially owned fixed assets. If that commitment still exists, steps should be taken to ensure that all departments, funds and applicable Provincial agencies adhere to the requirements of the Manual of Financial Administration. If that commitment does not exist, the applicable section of the Manual should be withdrawn since allowing entities to ignore it brings the whole Manual into disrepute.

However, it should be noted that if the Government formally sanctions the superfluousness of fixed asset control systems, it will openly conflict with the reason for that part of sub-section 19 (2)(c) of The Auditor General Act which requires the Auditor General to report to the Legislative Assembly every case where he has observed that fixed assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for.

Recommendation: (No. 15)

(1978-79: No. 13)

*It is recommended that, in view of the large and increasing volume (and value) of fixed assets administered by the Provincial Government, improvements be made to many of the systems currently in place to ensure adequate control and safeguards. These systems should incorporate the requirements of section 9.5 of the Treasury Department's Manual of Financial Administration, the most important of which are:*

- *An accurate and timely record of assets under the entity's custodianship containing a description of each asset showing its location, original cost or assigned value, acquisition date and disposal date.*
- *A program of physical counts to be taken periodically and reconciled to the records. The reconciliations and physical counts should be performed by independent persons.*
- *Proper physical safeguards to prevent damage or misappropriation of fixed assets.*

Recommendation: (No. 16)

(1978-79: No. 15)

*It is recommended that all Provincial agencies and regulated funds which are not currently subject to the Treasury Department's Manual of Financial Administration, excepting those which have already done so, design, implement and document procedures to adequately record, account for and safeguard fixed assets under their custodianship. The principles contained in section 9.5 of the Treasury Department's Manual could be used as a guide in designing such procedures.*

## 2.2.8 SALARY PAYROLL — OVERPAYMENT OF OVERTIME

Section 17.08 of the Master Agreement between the Government of the Province of Alberta and the Alberta Union of Provincial Employees provides that "overtime pay shall be calculated from the annual salary rate in effect at the time overtime is worked regardless of any subsequent retroactive change in that rate." Section 17.08 applies to all employees entitled to overtime pay regardless of union membership or the reason for the change of salary rate.

The Auditor General's report to the Legislative Assembly for the 1978-79 fiscal year reported that for all payments examined during a special examination in December 1978, overtime had been calculated using the annual salary rate in effect at the time when the overtime was paid. Failure to comply with section 17.08 of the Master Agreement resulted in employees being overpaid.

In response to a recommendation, the Provincial Treasurer replied, in a report to the Select Standing Committee on Public Accounts in October 1980, that departments are being encouraged to ensure that overtime is paid according to applicable rates.

However, an Audit Office examination of overtime payments made subsequent to the completion of pay negotiations in 1981, indicated that overtime was still being calculated using annual salary rates in effect at the time when the overtime was paid.

In response to the Audit Office's findings, the Treasury Department reviewed the employees' payroll history files and reported that 6,105 employees had received overpayments totalling \$127,488. It also stated that in view of the number of employees and the amount of money involved, and the amount of effort required, it was considered inappropriate to attempt recovery.

The Audit Office has since been informed that the payroll data processing system has been modified so that overtime payments can be calculated at the annual salary rate in effect at the



time when overtime is worked. In addition, the Payroll and Pensions Administration Division of the Treasury Department will review and control requests for overtime payments, and employing departments will be notified of procedures to be followed.

It is significant to note that despite the widespread nature of this situation, no employing department notified the Payroll and Pensions Administration Division that overpayments had occurred.

Despite the action taken by the Treasury Department to prevent recurrences, it must be remembered that the primary responsibility for ensuring that employees are paid accurately rests with the employing department. Accordingly, the recommendation originally made in the Auditor General's report to the Legislative Assembly for the 1978-79 fiscal year is repeated.

Recommendation: (No. 17)

(1978-79: No. 20)

*It is recommended that when employees receive salary increases, the departments in which they are employed should ensure that overtime paid subsequently, relating to hours worked prior to the salary increase, is based on pre-increase salary rates.*

## 2.2.9 THE UNIVERSITY OF ALBERTA — SPECIAL FUNDS

The University of Alberta, through the Special Funds Division of the Office of the Comptroller, administers funds held on behalf of others for research, trust or other purposes.

During the annual audit of the University for the year ended March 31, 1981, it was observed that a number of special funds accounts were overexpended or overcommitted, and that follow-up procedures on these accounts were not effective. In some cases, promised action by account holders was not forthcoming and overexpenditures actually increased. In addition, it was noted that at the end of June 1981, follow-up of the March 31, 1981 Overexpended Overcommitted report had not been initiated.

An account of particular audit concern was that of the University of Alberta Students' Union. Pursuant to an agreement with the Students' Union, the University of Alberta provides a banking service to the Students' Union through the medium of a special funds account. During the annual audit of the University, it was observed that the account was overdrawn by \$580,000 at May 31, 1981. This was contrary to the agreement which limits the amount that the Union may borrow from the University through the account to \$500,000.

It was also observed that there were expenditure commitments at that date of approximately \$400,000, and that the overdrawn balance later increased to almost \$1,000,000. Subsequently however, borrowing on this account was brought within the required limit.

Recommendation: (No. 18)

*It is recommended that the University of Alberta's overexpended and overcommitted special funds accounts be subject to prompt and vigorous follow-up procedures to ensure adherence to stated University policies and procedures.*

Recommendation: (No. 19)

*It is recommended that The University of Alberta take steps to ensure that future borrowings on the Students' Union Account are maintained within the limit imposed by its agreement with the Students' Union.*

## 2.2.10 WAPITI LODGE — GRANDE PRAIRIE

The Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year described a number of problems regarding the manner in which arrangements were made with a private



agency for the provision of services at Wapiti Lodge, a Provincially owned transient mens hostel located in Grande Prairie.

As a result of an investigation, the Audit Office concluded that the Departments of Social Services and Community Health and the Solicitor General, both of which used the services provided by Wapiti Lodge, had consistently failed to observe a number of terms contained in annual agreements with the private agency. Also, that the Department of Social Services and Community Health had not ensured that the Departments of Government Services and Housing and Public Works, which provided or paid for services to Wapiti Lodge, did so in accordance with the annual service agreements.

Although the Audit Office's investigation revealed that costs had been incurred by the Province which, under the terms of the agreements, should have been borne by the private agency, it has since been learned that the Department of Social Services and Community Health has deemed it appropriate not to seek recovery of these costs. Audit Office recommendations arising from the investigation had been communicated to the departments concerned (see recommendations 1979-80: Nos. 7, 8 and 9) and corrective action had been taken or had commenced.

Of greater concern was the poor liaison between departments which created potential for further situations of this kind. Accordingly, the Auditor General recommended in his 1979-80 report that where more than one department requires common services to be provided by a single non-government agency, a single department be given responsibility for co-ordinating the preparation and administration of contracts relating to the provision of those services.

The Provincial Treasurer responded to this recommendation in a report to the Select Standing Committee on Public Accounts in October 1981. That response stated that the Government agrees that it is desirable to co-ordinate the preparation of contracts and agreements relating to the provision of common services. The Departments of Government Services and Housing and Public Works are improving procedures for co-ordinating building services and leased space which are the most usual form of common services.

In view of this response, and since the departments concerned have already taken the suggested action in connection with the recommendations specific to the Wapiti Lodge situation, these recommendations are not repeated in this report.

## 2.3 SYSTEMS WEAKNESSES AND DEFICIENCIES

(Reported pursuant to sub-sections 19(2)(d) and (e) of The Auditor General Act)

### 2.3.1 COLLECTION OF PUBLIC MONEY

The Auditor General's report to the Legislative Assembly for both the 1978-79 and 1979-80 fiscal years stressed the importance of adequate systems to record and control the receipt of public monies. Audits for the two years had revealed an excessive number of deficiencies in these systems.

To illustrate the nature and pervasiveness of these deficiencies, the 1979-80 report included thirteen management letter quotations of instances where deficiencies had been observed. In the main, these quotations related to situations where clerical staff were performing multiple functions relating to the receipt and recording of public money, without consideration for appropriate segregation of functions as required by the principles of sound internal control.

Both reports contained recommendations that greater efforts should be made to achieve full compliance with the management and internal control guidelines relating to cash receipts and incoming mail contained in section 8.3 of the Treasury Department's Manual of Financial Administration.

The Provincial Treasurer responded to these recommendations in a report to the Select Standing Committee on Public Accounts in October 1981. That response stated that most departments have made adjustments to ensure that cash receipts and incoming mail are processed in accordance with the recommendation. Also, it stated that the Office of the Controller is now conducting reviews of internal control systems including receipt of cash, advising departments of deficiencies in those procedures and making specific recommendations for improvement.

Audits conducted during the 1980-81 fiscal year revealed that measures have been taken to eliminate the systems deficiencies commented upon in the management letter quotations contained in the 1979-80 report. Furthermore, although a few additional deficiencies of a similar nature were noted, the problem appears not to be as pervasive as it was in previous years. Accordingly, the recommendation is not repeated in this report.

### 2.3.2 CONDITIONAL GRANTS

Conditional grants are grants paid by the Province pursuant to agreements which impose restrictions and conditions on the subsequent use of the funds. In some cases, the agreements require that grant monies received in excess of requirements shall be refunded to the Province. It is believed that the Province should be able, should it desire, to have access to the appropriate financial records of conditional grant recipients so that it may ensure that grant monies were spent for the purposes for which they were intended.

It was stated in the Auditor General's reports to the Legislative Assembly for the 1978-79 and 1979-80 fiscal years that it had been observed that many departments and agencies were disbursing conditional grants without reserving right of access to the appropriate records of the recipient. Also, it was stated that those which did reserve the right, rarely exercised it. Both reports contained a recommendation that all conditional grant agreements contain provisions that the donor department or agency, the Provincial Treasurer and the Auditor General have right of access, inspection and audit of the relevant records of conditional grant recipients. It was also recommended that donor departments and agencies make more use of these rights.

In response to the recommendations, the Office of the Controller has revised the control requirements covering conditional grants contained in the Treasury Department's Manual of Financial Administration to state that initiation of grant payments should be supported by a

formal application which provides appropriate access rights. Furthermore, the Office of the Controller has undertaken, as part of its ongoing review of financial systems, to ensure that conditional grant agreements include the appropriate provisions, and to review procedures in place to follow-up conditional grants.

In view of the action taken by the Office of the Controller, and because audit activity during the 1980-81 fiscal year indicated that the action had begun to have the desired effect, the recommendations are not repeated in this report.

### 2.3.3 CONTRACTS

During the 1978-79 and 1979-80 fiscal years, the Audit Office conducted a series of special cross-Government examinations of departmental contract administration procedures. Although systems in place to process contracts of all types were included, the examinations were designed to focus primarily on professional and other manpower service contracts to determine whether control was exercised over services acquired and the cost of those services.

At the conclusion of each examination, the Audit Office formally communicated detailed audit findings and recommendations in a management letter to the deputy minister of each department concerned. These recommendations were accepted and assurances were received that steps had been taken, or were being taken, to implement standards and procedures to improve contract administration.

As a result of these examinations, the Audit Office concluded that, in many instances, Government departments could not demonstrate with records and documentation that they were effectively managing and controlling contract expenditures. This conclusion was stated in the Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year.

Because of the large and increasing amount of public money processed through contract administration systems, the Auditor General's report to the Legislative Assembly for both 1978-79 and 1979-80 fiscal years suggested legislatively approved contract administration standards. It was recommended that under the powers granted by section 79(1) of The Financial Administration Act, 1977, the Treasury Board issue comprehensive directives governing standards of contract administration to be observed when contracts are entered into by and on behalf of the Crown or a Provincial agency. These directives should cover the rendering of services and the buying or selling of goods by or to the Crown or a Provincial agency.

Audits conducted for the 1980-81 fiscal year revealed no serious or pervasive deficiencies in contract administration systems. In addition, the Treasury Department's Manual of Financial administration has been updated to provide guidelines for the establishment of these systems. Furthermore, in a report to the Select Standing Committee on Public Accounts in October 1981, the Provincial Treasurer stated that these guidelines will be presented to the Treasury Board in due course to be formalized in a directive pursuant to section 79(1) of The Financial Administration Act, 1977. Accordingly, the recommendation is not repeated in this report.

### 2.3.4 DEPARTMENT OF GOVERNMENT SERVICES — MANAGEMENT INFORMATION SYSTEM FOR CENTRAL VEHICLE SERVICES

Commencing in 1977, the Department of Government Services attempted to design and implement a management information system for Central Vehicle Services (MIS/CVS). The system was intended to provide vehicle management information to all users of the system and to facilitate full audit control over the issue, use and payment of vouchers for operating costs.

The Auditor General's Report to the Legislative Assembly for the 1979-80 fiscal year commented on several internal control deficiencies in the system and questioned the capability of MIS/CVS



to provide the reliable information required by management. The report also contained a recommendation (1979-80: No. 15) that the Department evaluate the function of MIS CVS in the context of current requirements to determine the suitability of the system for the achievement of its basic objectives.

Subsequently, the system was evaluated as recommended. The Department of Government Services concluded that the basic objectives were not being realized and, as a result, decided to withdraw from central payment processing of direct operating expenses.

The effect of withdrawal from central payment processing on the provision of vehicle management information has not yet been determined. It is expected that all outstanding unmatched vouchers and vendors invoices will be cleared by March 31, 1982.

A further recommendation (1979-80: No. 16) in the Auditor General's 1979-80 report related to development procedures for significant electronic data processing systems. Audit Office concerns have been addressed in the "Control Standards for E.D.P. Systems" manual issued by the Office of the Controller, effective April 1, 1981.

### 2.3.5 DEVELOPMENT OF ELECTRONIC DATA PROCESSING SYSTEMS

As a result of information stemming from the work of the Audit Office during the development of several new EDP systems, it was considered appropriate to review the Province's centrally administered procedures for acquiring new EDP hardware, software and personnel.

Prior to March 31, 1981, the requirements governing the acquisition of EDP services and equipment were contained in Treasury Board Directive (TBD) 14 78. Since the objectives of TBD 14 78 had not been formally documented and distributed to all persons involved in the process, there was confusion amongst the parties involved as to the specific objectives of the process and how the process achieved these objectives. It was, however, recognized that the general purpose of the process was to control EDP expenditures.

Under TBD 14 78, each acquisition of EDP services and equipment required the prior approval of the Deputy Minister of Government Services and the Deputy Provincial Treasurer. An inherent risk in this approval process was the potential for departments and Provincial agencies to believe that responsibility for developing and implementing new EDP systems had been transferred or delegated to the approving bodies, ie. the Department of Government Services and the Treasury Department.

The importance of developing systems which are able to perform the functions for which they were intended cannot be over-stressed. Computers and computer systems are widely used by the Province of Alberta and there is increasing pressure to expand their use to address newly legislated mandates and to improve the operations of departments and Provincial agencies. Computerized information systems produce the information used by management in the decision making process. The information provided by these computerized accounting or management control systems influences the method and quality of management. When systems fail to satisfy their design objectives, the information produced may result in poor and more costly decisions being made. In addition, poorly defined systems, once developed and implemented, may be difficult and expensive to modify.

For these reasons, it is important that a management control system exists to ensure that the best (economic, efficient and effective) EDP system solution is identified and developed. In addition, procedures should ensure that the highest priority is awarded to those systems which are required most urgently.

Following the suggestions reported to management at the end of the audit of the TBD 14 78 process, and subsequent to discussions between the Deputy Provincial Treasurer, the Deputy Minister of Government Services, the Controller and the Audit Office, Treasury Board Directive 07/81 was issued to replace TBD 14/78.

TBD 07/81, which sets out the procedures for the management of electronic data processing, states that the Treasury Board recognizes that individual departments and agencies have prime responsibility for the management of EDP resources required to achieve their program objectives. The directive recognizes that inherent in this responsibility is the need to develop and maintain an EDP plan which identifies future directions contemplated for present or proposed EDP systems. To assist individual departments and agencies in the management of their EDP resources, standards and guidelines were issued by the Department of Government Services and the Office of the Controller.

TBD 07/81 indicates that the Office of the Controller will conduct reviews of EDP projects and development practices to ensure compliance with the Directive and the standards and guidelines issued.

Compliance with the new Treasury Board Directive will assist in avoiding problems of the nature reported in the Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year entitled "Department of Energy and Natural Resources — Main Accounts Receivable System" and "Department of Government Services — Management Information System for Central Vehicle Service". The following recommendation is made, pending an audit by the Audit Office, of the procedures established by Treasury Board Directive 07/81.

Recommendation: (No. 20)

(1979-80: No. 41)

*It is recommended that the Province adopt procedures to ensure that departments and Provincial agencies identify and provide the best possible (economic, efficient, effective) EDP system solutions. These procedures should include:*

- 1. An independent evaluation to assess whether or not the EDP development plan is in appropriate detail to describe the activities envisaged during the period of the plan, and that evidence is available to support the actions contemplated. In particular the evaluation should ensure that evidence is available which indicates that:*
  - a) senior departmental and Provincial agency management have reviewed and approved the plans for acquiring EDP equipment and services and have recognized their responsibilities with respect to their plans;*
  - b) problems identified by management of departments or Provincial agencies have been properly defined;*
  - c) solutions to those problems have been properly planned and documented;*
  - d) the most efficient, economic and effective solution is being proposed;*
  - e) the necessary resources to implement the solution are available.*
- 2. When and where appropriate, the progress made by the department or Provincial agency towards achieving the goals specified in an acquisition proposal should be independently reviewed and findings reported to the appropriate management officials.*
- 3. The findings of an independent post-implementation review should be reported to the appropriate management officials.*
- 4. An independent evaluation should be performed to determine whether or not Treasury Board Directive 07/81 and its associated EDP standards and guidelines, issued by the Office of the Controller and the Department of Government Services, have been complied with.*

#### 2.3.6 NURSING HOME PROGRAM

During the 1979-80 fiscal year, an audit of internal accounting controls at the Department of Hospitals and Medical Care was extended to encompass management information and control systems within the Department's "Financial Assistance for Supervised Personal Care" program. This program is commonly referred to as the Nursing Home Program.



Among the audit findings reported to management at the conclusion of the audit were that:

- deficiencies existed in the Department's systems for controlling the payment of per diem grants to nursing homes.
- deficiencies existed in the Department's procedures for reviewing compliance with legislated standards of patient care.
- instances were noted of non-compliance by nursing homes with regulations issued pursuant to The Nursing Homes Act.

These audit findings were described in greater detail in the Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year. Also included were the three recommendations (1979-80: Nos. 17, 18 and 19) repeated below.

The Provincial Treasurer responded to these three recommendations in a report to the Select Standing Committee on Public Accounts in October 1981. That response stated:

"A new schedule has been introduced to reconcile expenditures on the monthly financial and statistical reports to that reported on the annual audited returns. Systems programming will be undertaken to compare the data reported on the monthly and annual reports.

A schedule summarizing patient days, daily rate and income, by responsibility for payment, has been included in the revised Annual Return of Nursing Homes. This schedule will assist in verifying provincial contributions and patient days funded under the Nursing Home Programme.

The Department has prepared an Instruction and Definition Guide for the completion of the Annual Return of Nursing Homes. This guide will serve as a reference and will ensure uniform reporting on the revised Annual Return.

Work has commenced on improvements to the data processing system which will result in a routine comparison of patient day's data on monthly claims, monthly returns and annual audited returns. Any exceptions reported through this system will be carefully followed up by the department's Internal Audit Branch.

Use of a standard format for documenting compliance with the Nursing Home Act and Regulations is now under consideration. The Department's prime concern is quality of care for the nursing home residents; professional judgement is the vital factor in determining whether compliance with the act and regulations actually correlates with the provision of a good standard of resident care. It should be noted that the branch does have a comprehensive check list which includes in excess of 550 questions. The use of this list is not compulsory for all visits to a nursing home by Institutional Operations Branch, but is used in some instances.

Nursing home standards as laid down in regulations are currently under review. The Minister of Hospitals and Medical Care has appointed a panel of citizens to carry out a comprehensive review of all aspects of the Nursing Home Plan. Once this panel has completed its work and made its recommendations, amendments will be made as required to regulations. Improved procedures will then be developed to ensure compliance."

Although it appears that the action proposed will eliminate the weaknesses and deficiencies revealed by the audit, the recommendations are repeated pending implementation of the proposed procedures and a review of their adequacy by the Audit Office.

Recommendation: (No. 21)

(1979-80: No. 17)

*It is recommended that the Department of Hospitals and Medical Care strengthen its control over the payment of per diem grants to nursing homes under the Financial Assistance for Supervised Personal Care program by ensuring that:*

- *Provincial contributions and patient days data on monthly returns are reconciled with the data contained in monthly unaudited financial and statistical reports from nursing homes.*
- *Monthly data are reconciled with annually audited data, and that annually audited data are provided in a format which facilitates such reconciliations.*



- *Nursing homes are provided with guidelines for the preparation of monthly and annual reports and returns which will ensure that reporting is complete, accurate and consistent.*

Recommendation: (No. 22)

(1979-80: No. 18)

*It is recommended that the Department of Hospitals and Medical Care establish procedures to enable management to ensure that inspection visits to nursing homes, which receive funding under the Financial Assistance for Supervised Personal Care program, are performed adequately, consistently and comprehensively.*

Recommendation: (No. 23)

(1979-80: No. 19)

*It is recommended that the Department of Hospitals and Medical Care improve procedures to monitor and ensure compliance, by the nursing homes to which it contributes funding, with the regulations issued pursuant to The Nursing Homes Act.*

### 2.3.7 PAYROLL — SEGREGATION OF DUTIES

The Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year quoted a number of instances where deficiencies had been observed in systems used to process and distribute payroll cheques. In the cases noted, there was inadequate segregation of duties in that clerical staff involved in initiation and processing of payroll documentation were also involved in distributing payroll cheques.

Unless adequate segregation of duties is achieved, individual staff members are in positions which enable them to fraudulently instigate and obtain payroll cheques. Similarly, unfair suspicion may fall upon staff in such positions should irregular or fraudulent payments occur.

The Auditor General's reports for both 1978-79 and 1979-80 contained recommendations that, where necessary and appropriate, greater efforts be made to achieve full compliance with the internal control guidelines relating to payroll processing and distribution contained in chapter 7.3 of the Treasury Department's Manual of Financial Administration.

The Provincial Treasurer responded to these recommendations in a report to the Select Standing Committee on Public Accounts in October 1981. That response stated that a number of departments have made changes to ensure that there is segregation of duties between staff responsible for preparation, summarization and approval of payroll information and staff responsible for checking and distributing payroll cheques. Also, it stated that the Office of the Controller reviews procedures for conformity with the guidelines and provides specific recommendations concerning compliance or appropriate compensating controls to those not adhering to the guidelines.

Audits conducted during the 1980-81 fiscal year revealed that efforts have been made to improve internal control in this area and that the problem appears not to be as pervasive as it was in previous years. Accordingly, the recommendation is not repeated in this report.

### 2.3.8 PUBLIC COLLEGES

The public college system in Alberta, which operates under the authority of The Colleges Act, comprises ten colleges, each administered by an independent Board of Governors. Financial support for these colleges is provided primarily through operating and capital grants from the Province, and programs are co-ordinated under policies administered by the Department of Advanced Education and Manpower. Sub-section 4.1.3 of this report contains a list of the ten public colleges.

The Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year commented on several systems weaknesses and deficiencies which were revealed by audits of the public colleges for their fiscal year ended June 30, 1979. Since audits of the ten colleges for the year

ended June 30, 1980 were completed prior to publication of the Auditor General's 1979-80 report, only those weaknesses and deficiencies remaining uncorrected at June 30, 1980 were included therein. Since all related to more than one college the Auditor General's observations and recommendations were not directed at specified colleges, and it was hoped that the recommendations would be of benefit to all ten.

The remainder of this sub-section contains a follow-up on the observations and recommendations respecting public colleges contained in the Auditor General's 1979-80 report. In this regard, findings revealed by audits for the year ended June 30, 1981 are taken into account. Where in this sub-section, reference is made to responses by the Provincial Treasurer, these are responses to the Auditor General's recommendations contained in a report to the Select Standing Committee on Public Accounts in October 1981.

### Fixed Assets

The Auditor General's report for the 1979-80 fiscal year commented that systems used to account for and safeguard the almost \$133 million worth of fixed assets collectively administered by the colleges were inadequate. It was also observed that at four of the colleges, these problems had been compounded by uncertainties regarding the transfer of fixed assets to these colleges from the Departments of Advanced Education and Manpower and Housing and Public Works. The Departments had not determined which land and buildings were to be transferred to the colleges or at what date. In addition, neither the colleges nor the Department of Advanced Education and Manpower had determined which other assets had been transferred to the four colleges or the values of those assets.

In view of these uncertainties, and because these assets would normally be the single most significant balance sheet item, the Auditor General found it necessary to qualify his reports on the financial statements of these four colleges for the years ended June 30, 1979 and 1980.

The report also contained a recommendation that the public colleges document and implement procedures to account for and safeguard all fixed assets under their custodianship. It was suggested that the design of such procedures should be co-ordinated between the colleges and the Department of Advanced Education and Manpower, and that the Department should act quickly to resolve the uncertainties respecting the transfer of assets to the four new colleges.

In response to these recommendations, the Provincial Treasurer stated that the public colleges have developed procedures to account for and safeguard fixed assets.

Audits for the year ended June 30, 1981 revealed that only Lethbridge Community College had an acceptable fixed asset system. In this regard, the minimum requirements of an acceptable system were considered to be an up-to-date listing of all fixed assets recording a description of the asset, its acquisition information and location, together with a program of periodic physical verifications by staff who are independent of the asset custody and record keeping functions. Of the other nine, Grant MacEwan Community College and Mount Royal College were developing fixed asset recording and safeguarding procedures, though such procedures had not been implemented.

The Provincial Treasurer's response did not address the recommendations relating to co-ordinating the design of procedures and the resolution of uncertainties in connection with transfers of assets to the four public colleges established in 1978.

It was observed that the colleges, through their Committee of Finance Officers, are attempting to co-ordinate various aspects of fixed asset reporting and control, including accounting and safeguarding procedures. However, without broad guidelines developed in conjunction with the Department of Advanced Education and Manpower, it appears unlikely that consistency will be achieved.

With regard to the uncertainties surrounding the transfer of assets from the Department of Advanced Education and Manpower, it was noted that as at December 1, 1981 Fairview, Keyano, Lakeland and Olds colleges still had not been provided with details of specific assets transferred and the values thereof. Thus, for a period of almost four years, these colleges have been unable to report on the value of all furnishings and equipment utilized in their operations.



Naturally this has hindered their efforts to proceed with the establishment of fixed asset control systems.

In addition, the four colleges still have not been informed which land and buildings will be transferred to them from the Department of Housing and Public Works or the values of such land and buildings.

Since very little progress appears to have been made towards correcting the fixed asset systems weaknesses and deficiencies noted in the Auditor General's 1979-80 report, the recommendations are repeated:

Recommendation: (No. 24)

(1979-80: No. 22)

*It is recommended that management of all Public Colleges, excepting those which have already done so, document and implement procedures to account for and safeguard all fixed assets under their custodianship. The design of such procedures should be co-ordinated between the colleges and the Department of Advanced Education and Manpower.*

Recommendation: (No. 25)

(1979-80: No. 22)

*It is recommended that the Minister of Advanced Education and Manpower provide Fairview, Keyano, Lakeland and Olds colleges with details (including values) of the assets transferred to the colleges by the Department on April 1, 1978. It is also recommended that the Minister obtain from the Department of Housing and Public Works, and provide to the colleges, similar information respecting land and buildings to be transferred to the colleges.*

Capitalization Policies

The Auditor General's report for the 1979-80 fiscal year contained an observation that policies governing capitalization and recording of fixed assets were not consistent between colleges. Individual college Boards were adopting capitalization policies to suit their own requirements. These policies often resulted in inconsistencies between colleges in reported asset values and the apportionment of available capital grants.

For this reason, the 1979-80 Auditor General's report also contained a recommendation that the public colleges, in conjunction with the Department of Advanced Education and Manpower, adopt guidelines to ensure consistency of reporting for fixed assets.

The Provincial Treasurer's response to this recommendation was that the public colleges are working with the Department to arrive at policies which will serve their individual needs.

This response does not address the Audit Office's concern which is that consistent and uniform policies be developed to serve the colleges as a group not just their individual needs. Accordingly the recommendation is repeated.

Recommendation: (No. 26)

(1979-80: No. 26)

*It is recommended that the Public Colleges, in conjunction with the Department of Advanced Education and Manpower, adopt policies for the capitalization and recording of fixed assets which will ensure consistent fixed asset reporting between colleges and consistent apportionment of capital grant monies.*

Segregation of Duties

The Auditor General's report for the 1979-80 fiscal year stated that audits for the year ended June 30, 1979 had revealed a number of areas where clearly incompatible accounting duties were being performed by the same employee.

While acknowledging that the small number of staff involved in accounting functions at public colleges render it difficult to achieve effective internal control, it was recommended that adequate time and resources be directed towards establishing and maintaining a comprehensive internal control and supervision system.

The Provincial Treasurer responded that the Public Colleges are cognizant of the requirement for good internal control systems. Also that senior management monitors continuously its staff requirements in order to maximize the effectiveness of its internal control systems.



During the year ended June 30, 1981, Keyano, Lakeland and Olds colleges experienced internal control difficulties for periods of several months owing to staff vacancies in key accounting positions. In addition, a number of instances were noted where staff turnover and vacancies had hampered the maintenance of adequate and timely financial records. Nevertheless, the Auditor General acknowledges the efforts by senior management of the colleges in administering established systems of internal control.

In view of these efforts, and recognizing that the small number of accounting staff limits the scope for comprehensive systems of internal control, the recommendation for improved systems is not repeated in this report.

#### Revenue and Cash Receipts

The Auditor General's report for the 1979-80 fiscal year stated that audit examinations had revealed a number of weaknesses and deficiencies in the systems used by public colleges to control their revenues and cash receipts. Common deficiencies observed included: delays both in the deposit of cash receipts and reconciling receipts and deposits; lack of follow-up of long overdue accounts receivable; inadequate control over decentralized revenue sources and ineffective management supervision. In one instance, control deficiencies had resulted in an unexplained cash shortage (loss).

The report also contained a recommendation that public colleges document and implement suitable control systems for the generation, collection and recording of revenue, and also, that these systems should provide reports designed to support effective management supervision.

The Provincial Treasurer responded by stating that the colleges are designing and implementing improved control systems for their revenues in order to safeguard funds and provide accurate and timely reports. Audits for the year ended June 30, 1981 confirm this state of affairs and, accordingly, the recommendation in this area is not repeated in this report.

#### Financial Reserves

The Auditor General's report for the 1979-80 fiscal year stated that the Boards of several colleges had identified special future financial requirements and had established reserves to meet them by appropriating amounts from their operating surplus. It was noted that while this practice appears to be within the powers granted under The Colleges Act, there was concern about the effect this practice had on the Minister's ability to exercise his legislative authority through the approval process for capital and operating budgets for colleges.

The report recommended that the Minister of Advanced Education and Manpower clarify the requirements for the approval of and expenditure from financial reserves established in the financial statements of the public colleges, and also, that the Minister establish broad guidelines respecting the circumstances in which reserves may be created.

In response to these recommendations, the Provincial Treasurer stated:

"The Auditor General has stated in his report that "the practice of establishing reserves appears to be within the powers granted under The Colleges Act" and the Minister is satisfied with the current situation provided the administration of such reserves when examined by the Auditor General is found to be in accordance with sound accounting principles."

The underlying bases for this response appear obscure, for the following reasons:

1. The "current situation" with which the Minister of Advanced Education and Manpower is said to be satisfied, is in fact a "laissez-faire" situation. Having no official guidance, some college Boards exercise their unlimited discretion in establishing and administering reserves using a variety of criteria and bases. Others have expressed uncertainty as to whether reserves should be established and how they should be treated.

At June 30, 1980, twenty separate reserves had been set up by the ten public colleges with an aggregate balance of almost \$2 million. While the number and aggregate value of reserves at June 30, 1981 is not yet known, it was observed that the use of reserves by Medicine Hat College and Red Deer College has proliferated.

2. To suggest that the Minister of Advanced Education and Manpower will rely on the Auditor General to determine whether or not public college reserves are administered in accordance with sound accounting principles is to propose a singularly inappropriate delegation of responsibility. Financial control of this nature is the responsibility of management.

Furthermore, generally accepted accounting principles pertaining to reserves allow management almost total discretion in their establishment. In this regard, it is important to distinguish between liabilities and reserves. Whereas liabilities are amounts set aside to meet known or anticipated costs arising from events which have already occurred, reserves are amounts appropriated from retained earnings or surplus. Liabilities are taken into account in determining operating profits; reserves are not. Reserves can be increased and decreased only by appropriations from and to retained earnings or surplus. Hence, even though a reserve is nominated as being for a specified future liability, the cost when it occurs cannot be used to extinguish the reserve, but must be treated as an operating cost. In short, use of the term "reserve" must be limited to describing appropriations from surplus at the discretion of management or pursuant to a statute.

Since management has almost total discretion in administering reserves, the auditor's function is virtually limited to ensuring that reserves and changes thereto are duly authorized by management and are appropriately described in the financial statements. Accordingly, for the Minister of Advanced Education to rely on the work of the Audit Office to gain assurance that reserves are "in accordance with sound accounting principles", is tantamount to delegating his responsibilities to the college boards.

The Auditor General's main concern with regard to these reserves is the effect they have on the Minister's ability to exercise his legislative authority. Operating grants paid from the General Revenue Fund pursuant to The Colleges Act are designated annual grants. Accordingly, where a grant is paid to provide operating funds for a specified fiscal year, it should not be used for any other purpose or for any other fiscal year. Retaining grant monies which were surplus to requirements in prior years as reserves, and using those monies in future years, affects the Minister's legislatively approved authority to make grants for specified years.

Section 43(b) of The Colleges Act empowers the Minister to approve any liability or expenditure of a college board. It is for this reason that the Minister should provide guidelines for the establishment and administration of reserves by public colleges.

In addition, public college audits for the year ended June 30, 1981 revealed a lack of the distinction between capital and operating funds. This further increases the Audit Office's concern about the legislative authority exercised by the Minister through the approval process for capital and operating budgets. Instances of combining capital and operating funds were observed at Keyano, Lethbridge, Olds and Red Deer colleges.

Recommendation: (No. 27)

(1979-80: No. 25)

*It is recommended that the Minister of Advanced Education and Manpower determine whether or not it is necessary for Public Colleges to establish financial reserves. If it is considered necessary, the Minister should clarify the requirements for the approval of and expenditure from reserves and consult with the Colleges in order to establish broad guidelines related to the nature of acceptable reserve funds.*

Recommendation: (No. 28)

*It is recommended that the Minister of Advanced Education and Manpower provide the Public Colleges with clear definitions of the uses to which operating and capital grants paid pursuant to section 22 of The Colleges Act may be put.*

Recording of Commitments

The Auditor General's report for the 1979-80 fiscal year noted that some colleges had adopted the practice of including the estimated value of outstanding purchase orders as accounts payable in their financial statements. Since the goods and services covered by these purchase orders do not relate to the reporting period, this represents a departure from generally accepted accounting principles.



Audits for the year ended June 30, 1980 revealed that despite Audit Office recommendations that this practice be discontinued, two colleges had not done so. Accordingly, the Auditor General qualified his reports on the financial statements of those two colleges for the year ended June 30, 1980.

The Auditor General's 1979-80 report contained a recommendation that the two colleges discontinue the above mentioned accounting practice. The Provincial Treasurer responded that the Government agrees with this recommendation and that the practice is being phased out. Audits for the year ended June 30, 1981 revealed that the two colleges had discontinued this practice.

### 2.3.9 RECONCILIATION OF BANK ACCOUNTS

The Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year commented upon a number of instances where weaknesses had been observed in systems to reconcile bank accounts. In the main, these involved situations where staff who prepared and approved bank reconciliations also had duties which involved handling and preparing bank deposits and/or signing cheques.

Because situations of this nature create a potential for fraud and error, and because so many of these weaknesses were encountered (although no fraud resulting from such weaknesses was detected by the Audit Office), it was recommended that the Treasury Department expand upon the financial control guidelines for bank accounts contained in chapter 9.1.3 of the Manual of Financial Administration.

The Provincial Treasurer responded to this recommendation in a report to the Select Standing Committee on Public Accounts in October 1981. That response stated that the Manual of Financial Administration will be updated to take into account the Auditor General's recommendation and also, that the Office of the Controller reviews procedures for assurance that adequate controls are in place.

Because the Manual of Financial Administration has now been updated, and audits conducted for the 1980-81 fiscal year revealed that problems of this nature were less prevalent, the recommendation is not repeated in this report.

### 2.3.10 SALARY PAYROLL — CLERICAL INACCURACIES

The Province's central salary payroll system processes the remuneration of approximately 30,000 public employees. The Office of the Controller (Payroll and Pension Administration) and the Public Service Commissioner are responsible for the system which uses the computing facilities of the Department of Government Services. Government departments and agencies, which use the central salary payroll system, are responsible for ensuring that input data submitted to the system and remuneration (and deductions therefrom) paid to employees are accurate and complete.

Audit work performed during the 1979-80 fiscal year revealed a number of errors in salary payments processed by the system and a high incidence of deficiencies in records maintained to support those payments. Furthermore, a special review of pension contribution calculations revealed several hundred instances of overdeduction and underdeduction of pension contributions.

The Audit Office attributed the majority of these errors to a combination of inadequate procedural and instructional documentation, poorly trained clerical staff, lack of supervision and high turnover rates. These matters were included in the Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year, together with recommendations designed to eliminate the weaknesses and deficiencies in the system.



In response thereto, the Office of the Controller issued revised instructions governing the eligibility of remuneration for pension contribution purposes and the computer program was modified to assist in determining eligibility requirements. Subsequently, the Personnel Manual was revised to include comprehensive instructions on the application of regulations. The Office of the Controller has undertaken to ensure that the User Manual, which is issued to departments and contains instructions on the operation of the salary payroll system, is current and instructive, and a liaison will be established with the Personnel Administration Office to co-ordinate instructions issued by both offices.

A committee of senior managers from the Personnel Administration Office and the Office of the Controller has been formed to deal with matters requiring inter-office co-ordination. In addition, the Office of the Controller will review payroll procedures and documentation in departments as part of its control evaluation activities and, where necessary, recommend procedural improvements.

Audit activity covering the 1980-81 fiscal year revealed a considerable improvement in the accuracy of calculations of pension contributions. However, no material improvement was observed in the clerical performance affecting the other matters reported for the previous year. In this regard, however, it is acknowledged that most of the remedial action by the Office of the Controller and the Personnel Administration Office was not taken until after March 31, 1981.

Although it appears that the action taken will help eliminate the system's deficiencies, the following recommendation is repeated pending review of the adequacy of improvements made to the system.

Recommendation: (No. 29)

(1979-80: No. 29)

*It is recommended, in order to improve the accuracy and authenticity of information produced by the Province's central salary payroll system, that the Office of the Controller, in conjunction with the Personnel Administration Office, ensure that departments and agencies using the system are provided with greatly improved and more comprehensive procedural and staff training documents. It is essential that this documentation be issued on a jointly co-ordinated basis by the Treasury Department and the Public Service Commissioner.*

#### 2.3.11 SECURITY OVER CENTRALLY STORED COMPUTER DATA AND PROGRAMS

The Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year commented upon the need to employ strong security measures to protect the Province of Alberta's electronically stored data and programs.

Excepting those agencies which have their own data centres, most departments and agencies utilize the services of the central electronic data processing and storage facility operated by the Department of Government Services. Each year, the volume of data and programs stored at this central facility increases dramatically. As the number of computer terminals and communication devices available outside the central facility increase in number and sophistication, the risk increases that they may be used to gain unauthorized access to the growing volume of data and programs stored at the central facility.

When considering computer security, it is important that all parties involved recognize their respective responsibilities. In this regard, the Department of Government Services is responsible for providing, and has provided, facilities for ensuring an adequate measure of security over centrally stored data and programs.

However, operating computer security systems can be expensive and time consuming. In addition to which, not all data and programs are sufficiently important or sensitive to warrant elaborate security measures. Management of departments and Provincial agencies which utilize the services of the central facility have primary responsibility for evaluating the confidentiality and sensitivity of the records they maintain. Management of departments and Provincial agencies are responsible for selecting the most appropriate security systems to protect their data and programs.

In his report to the Legislative Assembly for the 1979-80 fiscal year, the Auditor General recommended that management of departments and Provincial agencies which use the Government's central data processing and storage facility recognize their responsibilities for security and review their security systems.

Following this recommendation, an EDP Practices and Guidelines Manual was issued by the Department of Government Services which identifies security standards. In addition, the Control Standards for EDP Systems Manual issued by the Treasury Department requires that controls be in place to ensure that data is not tampered with or destroyed and that the confidentiality of information is safeguarded. Furthermore, the Office of the Controller has undertaken to review EDP systems to ensure adherence to these standards.

Although these procedures support the recommendation in last year's report, the recommendation is repeated, pending a review of the compliance with the procedures.

Recommendation: (No. 30)

(1979-80: No. 31)

*It is recommended that management of departments and agencies, which use the Government's central data processing and storage facility, review the adequacy of their data and program security arrangements. In this regard, user departments and agencies must accept responsibility for assessing the sensitivity and confidentiality of their data and programs, and selecting the most appropriate (including cost-effective) security system options.*

## 2.3.12 TEACHERS' RETIREMENT FUND — ACCOUNTING CONTROLS

The Teachers' Retirement Fund operates under the authority of The Teachers' Retirement Fund Act, Chapter 361, Revised Statutes of Alberta 1970. At August 31, 1980, the investment portfolio administered by the Fund amounted to approximately \$205 million. During the year ended August 31, 1980, pension payments to retired teachers totalled approximately \$41 million.

The audit of the Fund for the year ended August 31, 1980 revealed serious breakdowns in accounting and financial control functions. Among the more significant of these were the following:

- When the audit commenced in September 1980, it was noted that reconciliations had not been prepared for the pension bank account and general bank account since August 1979.
- Computer produced pension information was not reconciled from month to month and was not adequately reviewed by supervisory personnel before monthly pension payments were released.
- Several errors were noted in new pension calculations.
- Procedures to ensure that all school boards remitted contributions on a regular monthly basis were not adhered to.
- No system existed to ensure that all interest earnings were received by the Fund.

It was also observed that during the year, the Fund had initiated procedures to transfer pension payment processing to a new computer-based system. An Audit Office review of this system revealed deficiencies in the proposed controls and operating procedures, file conversion methods and documentation. This resulted in the Fund recognizing numerous inadequacies in the proposed system. Accordingly, a decision was made to terminate the original project and initiate development of another system.

The foregoing and other audit findings were communicated to the Secretary-Treasurer of the Fund in a management letter from the Auditor General dated April 9, 1981.

Recommendation: (No. 31)

*It is recommended that the Teachers' Retirement Fund take steps to eliminate the significant control deficiencies with respect to bank reconciliations, pension payments and calculations, and control over the receipt of pension contributions and interest earnings.*



Recommendation: (No. 32)

*It is recommended that the Teachers' Retirement Fund develop and implement its new computer-based systems in a controlled and systematic fashion, ensuring that adequate operating and control requirements are incorporated and that systems are fully tested prior to implementation.*

### 2.3.13 TRAVELLING EXPENSES

The Auditor General's report to the Legislative Assembly for the 1978-79 fiscal year commented that many subsistence and travelling expense claims submitted by public employees appeared not to have been within the spirit of the regulation which states:

"It is the policy of the Government to pay personal and other travelling expenses necessarily incurred by employees in the performance of their duties. Employees are neither asked to subsidize the cost of Government nor invited to indulge themselves at public expense."

The report elaborated upon the types of non-compliance which had been observed. In addition, the reports for both the 1978-79 and 1979-80 fiscal years recommended that those departments, which had not already done so, develop and implement guidelines and supporting procedures which reflect the Government's stated policy on reimbursable subsistence and travelling expenses, to ensure that excessive expenditures of public funds do not occur. In particular, it was recommended that care should be taken to acquaint Government employees with the practice of many hotels which, when requested, allow a special discounted government per diem rate. It was suggested that control could be improved by the maintenance of lists of approved hotels in locations visited regularly by employees and the requirement for prior approval when hotels other than those on the list are to be used.

In addition, it was suggested that costs to be incurred on major trips could be estimated and approved in advance, and subsequent actual costs compared with the estimates. Material variances between estimate and cost should then be subject to approval by a senior official prior to payment. It was noted that it is important that expenditure officers are fully aware of the relevant legislation, regulations and guidelines when they examine claims for reimbursement of travelling expenses prior to approval for payment.

Since that time the Treasury Department's Manual of Financial Administration has been revised to provide improved control procedures relating to the reimbursement of travelling expenses. In addition, the Audit Office has observed that departments have improved internal control procedures and the Department of Government Services, Supply Division has published a book of out-of-Province hotels with preferential government rates. Accordingly, the recommendation is not repeated in this report.

### 2.3.14 WALTER C. MacKENZIE HEALTH SCIENCES CENTRE

The Walter C. MacKenzie Health Sciences Centre is a major hospital facility currently under construction by the University of Alberta Hospitals. It is funded by the Alberta Heritage Savings Trust Fund. In 1980 the Board of the University of Alberta Hospitals became concerned about the effectiveness of certain financial controls, the method of financial reporting and the possibility that the final cost of the Centre would be greater than originally projected. As a result of these concerns, the Government of the Province of Alberta and the Board requested the Auditor General to examine the extent of possible budget overrun and recommend improvements in the management information system and the control exercised over the project.

The Audit Office issued several reports resulting from this examination. Major observations contained therein are summarized as follows:



- Originally budgeted funds were insufficient to complete the project and a major review of estimated costs to completion was required.
- Certain systems designed to control the project were deficient and not adequately documented. This resulted in lines of responsibility being poorly defined, non-compliance with systems and a general deterioration of controls.
- Financial information in reports presented to the Board was, in some respects, inaccurate and unclear.
- The planning office was not able to exercise efficient and effective financial control over the project. This was due mainly to the extent to which reliance was placed on information provided to the planning office by other parties.
- Architectural designs were prepared without reference to budget restrictions.
- Contract change forms were not adequately controlled.
- The effect of contract changes on financial reports comparing actual costs to the budget was not properly reflected.
- Architects' and consultants' fees were considerably in excess of amounts originally budgeted.

Since issuance of the Audit Office reports, considerable work has been carried out by the Hospitals to prepare a revised budget for costs to complete the project.

The Audit Office reports also contained recommendations for improvements in the financial control and reporting systems. These recommendations have been or are in the process of being implemented by the Hospitals. Audit Office reviews will be conducted periodically to assess the adequacy and operation of the revised systems (see also sub-section 2.4.2 of this report).

## 2.4 INAPPROPRIATE ACCOUNTING POLICIES AND INADEQUATE DISCLOSURES

(Reported pursuant to section 19(3) of The Auditor General Act.)

### 2.4.1 ACCOUNTING FOR PROGRAM COSTS

The Province's accounting policies and reporting practices for fixed asset costs significantly distort, and therefore detract from the meaningfulness of, the financial information contained in the Public Accounts. Since the Public Accounts represent the principal evidence of financial accountability available to the Legislative Assembly, this is a matter for serious concern.

The result of these accounting policies is that program delivery costs and the operating costs of some agencies and funds do not include costs associated with the premises occupied and the furniture and equipment used. Although the entities involved disclose the accounting policies employed in their financial statements, in many instances it is not possible for the reader (and therefore the Legislative Assembly) to determine the true cost of delivering a program or operating a fund or agency, since usually, costs relating to premises, furniture and equipment are not included.

The problem is perhaps best illustrated by comparing the Province's accounting policies with those used by most private sector entities. It is a generally accepted accounting principle that the cost of a fixed asset should be shown on the reporting entity's balance sheet and that portions of that cost should be charged to the entity's operating costs during the useful life of the asset. This process is usually referred to as depreciating or amortizing the cost of the asset. Although there are numerous formulae for doing this, they are usually designed to ensure that the entity's operating results reflect the costs of acquiring the assets it occupies and uses allocated over the fiscal periods it occupies and uses them.

The Province's accounting policies often do not comply with this principle and, furthermore, are inconsistent from entity to entity. For example, costs incurred in the acquisition, construction or leasing of premises occupied by all departments of government are charged to an appropriation of the Department of Housing and Public Works. No rental or similar charge is made to the occupying departments or the departmental programs which benefit thereby. Similarly, no rental or other charge is made to or is reflected in the financial statements of revolving or regulated funds, all of which are operated from premises acquired or leased by the Department of Housing and Public Works.

Furthermore, some Provincial agencies operate from premises owned and/or leased by themselves, some operate from premises provided at no charge by the Department of Housing and Public Works, while others operate partly from premises owned and/or leased by themselves and partly from premises provided at no charge by the Department of Housing and Public Works.

Similarly inconsistent accounting policies exist with regard to certain furniture, fixtures and equipment in premises owned or leased by the Department of Housing and Public Works. In certain circumstances, when premises are first occupied, the initial furniture, fixtures and equipment contained therein are acquired by and charged to an appropriation of the Department of Housing and Public Works. Most additions thereto are acquired by and charged to an appropriation of the Department of Government Services, while certain equipment is charged to the program which uses the asset.

In addition, some departments purchase fixed assets such as mobile equipment through their annual expenditure appropriations. Although these assets have useful lives extending over several years, their acquisition costs are reflected only in the program delivery costs of the year in which they are acquired.

It must be readily apparent that the accounting policies outlined above contribute to significant distortions in the financial statements of all revolving funds, most regulated funds and many Provincial agencies, since the statements fail to reflect many of the costs associated with the fixed assets from which the entities derive benefits. Similarly, costs of this nature are not

included in, and therefore cause understatement of, the total cost of delivery of individual departmental programs.

In addition to the concerns outlined above concerning the distorting effects these accounting policies have on the financial accountability information contained in the Public Accounts, an additional danger exists. Where these operating figures are used as a basis for calculating claims under federal provincial cost-sharing agreements, potential exists for otherwise claimable costs being forgotten and omitted.

It is also worthy of note that many individual program costs reported in the Public Accounts do not include a number of other costs associated with the delivery of those programs. Among the most significant of these are repair and maintenance costs, certain utilities costs and property rents which, at present, are charged to appropriations of the Department of Government Services or the Department of Housing and Public Works. In order to achieve more comprehensive financial reporting of program delivery costs, consideration might be given to devising methods for including the cost of maintenance, utilities, rents and other centrally provided services of a significant nature, in the reported costs of individual programs and agencies.

The Auditor General's reports to the Legislative Assembly for both the 1978-79 and 1979-80 fiscal years expressed many of the above concerns and included the recommendation (1978-79: No. 33) repeated below. The Provincial Treasurer responded to this recommendation in a report to the Select Standing Committee on Public Accounts in October 1981. That response stated that the Government agrees with the recommendation in principle; however, it involves considerably more than a change in accounting policy. It impacts on the fiscal planning and budgetary processes as well and is the subject of a study by a Treasury Department task force. The first concern in this regard will be to charge Provincial corporations in a consistent and equitable fashion. The recommendations of the Canadian Institute of Chartered Accountants will be reviewed as well as the practices of other government jurisdictions before extending this chargeback procedure to departmental programs and revolving funds.

Recommendation: (No. 33)

(1978-79: No. 33)

*It is recommended that consideration be given to implementing accounting policies to ensure that all appropriate fixed asset-related costs are charged to the programs, funds and Provincial agencies which derive the benefits from their use. It is suggested that achieving this objective may be facilitated by the use of a revolving fund, or similar vehicle, which could acquire and hold fixed assets having a material effect on future Government operations, and allocate the appropriate costs to programs, funds and Provincial agencies on a usage basis. Moreover, consideration should be given to requiring budgetary control over fixed assets acquired by revolving funds to be similar to that in effect for departmental programs.*

Recommendation: (No. 34)

*It is recommended that in order to achieve more comprehensive and meaningful reporting of program delivery costs, consideration be given, in the longer term, to including maintenance, utilities, rents and other centrally provided services of a significant nature, in the reported costs of individual programs and agencies.*

#### 2.4.2 ESTIMATES FOR CAPITAL PROJECTS

The Province of Alberta publishes expenditure estimates and approves expenditure appropriations from both the General Revenue Fund and the Alberta Heritage Savings Trust Fund on an annual basis. However, major capital expenditure projects usually take in excess of one year to complete.

Accordingly, it appears logical that when asked to approve a supply vote for any one year of a capital expenditure project, Members of the Legislative Assembly should be provided with certain information on the project as a whole. As a minimum, this information should include:



- a brief description of the original scope and time frame of the project and any subsequent changes thereto,
- original cost estimates, broken down by project phase and/or major expenditure type, and subsequent revisions thereto,
- accumulated costs to the end of the previous year, current year's cost forecast, amounts to be appropriated for costs to be incurred in the next fiscal year, and further anticipated costs to completion of the project.
- the basis, if any, upon which estimated project costs allow for monetary inflation together with an estimate of the impact of inflation on past, current and future costs in relation to the original cost forecast.

At present, Members of the Legislative Assembly are not provided with most of this information prior to approving annual appropriations for capital projects, though they may request it from the responsible Minister during debate on the supply vote. However, it is believed that provision of more comprehensive supplementary budget information on capital expenditures would enhance the control exercised over the expenditure of public funds by the Legislative Assembly. It would also help to avoid confusion and misunderstandings when project costs escalate and reasons therefor are sought. There is no doubt that many so called cost overruns do not reflect poor cost management, but rather, incomplete and inaccurate original cost forecasts.

An example of a situation which would have benefited from the provision of more timely supplementary budget information is the project to construct the Walter C. MacKenzie Health Sciences Centre, funded by the Alberta Heritage Savings Trust Fund. This project commenced in 1976 with an original budget of \$136 million, in 1975 dollars. In 1981, the Minister of Hospitals and Medical Care, speaking before the Committee of Supply of the Alberta Heritage Savings Trust Fund, stated that he expects that by 1986, costs in excess of \$500 million may be incurred on the Centre.

Sub-section 2.3.14 of this report contains a listing of the more significant deficiencies revealed by an Audit Office examination of systems used to control construction expenditures on the Health Sciences Centre. Undoubtedly, these deficiencies contributed to the project's cost overrun, as did monetary inflation, for which no provision was made in the original cost forecast.

The Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year contained the recommendation (1979-80: No. 34) repeated below. The Provincial Treasurer responded to this recommendation in a report to the Select Standing Committee on Public Accounts in October 1981. That response stated that it would be contrary to the traditions and customs of the Legislature to include this information in the printed Estimates of Expenditure; however, during Committee of Supply review, such information can be elicited from the Minister responsible by means of questions.

While acknowledging that the Provincial Treasurer's response accurately describes the current situation, the Auditor General believes that there are benefits to be gained from the timely publication of appropriate information on capital projects. In particular, it is believed that increasing available budget information in the manner described above would enhance the suitability of the annual estimates as a basis for controlling disbursements on major capital projects at both the Legislative and executive levels of government. Accordingly, it is suggested that this matter be reconsidered and the recommendation is repeated.

Recommendation: (No. 35)

(1979-80: No. 34)

*It is recommended that, in the interests of improved accountability to the Legislative Assembly and more effective budgetary control, appropriation bills should be supported by more extensive financial information on major capital expenditure projects. This information should include, inter alia, details of the original estimated costs and scope of each project, cost and scope revisions, costs incurred to the end of the previous fiscal year, current year cost forecast, amounts to be appropriated for costs to be incurred in the next fiscal year, estimated future year costs to completion, estimated impact of monetary inflation on past, current and future*

*costs in relation to the original cost forecast, and the total estimated cost for each project. This recommendation should not be interpreted as suggesting that the Legislative Assembly should approve other than the next fiscal year's expenditures on these projects.*

### 2.4.3 PENSION PLANS — FUNDED LIABILITIES

The Pension Fund Act, Chapter 80, Statutes of Alberta 1980, which came into effect on February 13, 1981, established the Pension Fund. On March 11, 1981, in accordance with the Act, an initial amount of \$1.1 billion was transferred to the Pension Fund from the General Revenue Fund.

The Act requires that with effect from April 1, 1981, the net difference between amounts received and amounts paid out pursuant to six specified Provincially administered pension plan Acts shall be transferred, on a monthly basis, from the General Revenue Fund to the Pension Fund (or vice versa where appropriate).

At March 31, 1981, the net assets of the Pension Fund amounted to \$1,100,708,991. It should be noted that these assets are not trust assets in the strict sense of the word "trust". They are, in fact, assets set aside in a statutory fund to meet certain pension obligations and, accordingly, should be included in the consolidated financial statements. However, the Pension Fund was excluded from the consolidated financial statements of the Province of Alberta for the year ended March 31, 1981.

In the opinion of the Auditor General, the usefulness of the consolidated financial statements would be improved by the inclusion therein of the financial statements of the Pension Fund. Although the Pension Fund's assets are insufficient to meet the unrecorded liability for accrued pension obligations, the portion of the unrecorded pension liability represented by Pension Fund assets could be shown on the consolidated balance sheet as Pension Plans-Funded Liabilities.

#### Recommendation: (No. 36)

*It is recommended that, in future, the financial statements of the Pension Fund be included in the consolidated financial statements of the Province of Alberta. This would involve including Pension Fund assets with similar assets on the consolidated balance sheet and reflecting a like amount as a liability for part of the Province's accrued pension plan obligation.*

### 2.4.4 PENSION PLANS — UNFUNDED LIABILITIES

The Auditor General's reports to the Legislative Assembly for the 1978-79 and 1979-80 fiscal years recommended that the Province of Alberta adopt the practice of reflecting the unfunded liability arising under its various pension plans as a liability in the financial statements of the General Revenue Fund and the Province. However, for the year ended March 31, 1981, this reporting practice was not adopted.

It should be noted that the Auditor General's recommendation related only to financial statement presentation policy. It was not a recommendation that all Government pension plan obligations be fully funded. Whether or not to fund pension plan obligations is a matter of Government policy and, therefore, beyond the scope of this report. However, it is interesting to note that in the private sector, pension plans registered pursuant to the Pension Benefits Act, Chapter P-3, Revised Statutes of Alberta 1980 must be funded to provide for payment of all pension benefits.

As in previous years, Note 2 to the financial statements of the General Revenue Fund states that annual contributions to and payments from six pension plans operated by the Province of Alberta are credited to and charged to the Fund. The pension plans are therefore on a current cost basis and no liability is shown in the financial statements in respect of present or future



benefits, including periodic discretionary cost of living adjustments, payable under the pension plan Acts.

In addition to liabilities under the six above mentioned pension plans, Note 6 to the financial statements of the General Revenue Fund states that the Province of Alberta has guaranteed payment of all benefits in respect of a partially funded pension plan operated under authority of The Teachers' Retirement Fund Act.

On February 13, 1981, pursuant to The Pension Fund Act, the Pension Fund was established and on March 11, 1981 an initial amount of \$1.1 billion was transferred into the Pension Fund from the General Revenue Fund. Subsequent to March 31, 1981, monies received or required to be paid under the six pension plan Acts are to be accounted for in the financial statements of the Pension Fund, except that pension payments in excess of Pension Fund assets are to be charged to the General Revenue Fund under the authority of The Pension Fund Act.

The magnitude of the Province's liability in respect of the unfunded liabilities of these seven pension plans, together with the accounting policies considered appropriate in the circumstances, continue to be considered worthy of special mention.

In the Auditor General's reports to the Legislative Assembly for the fiscal years 1978-79 and 1979-80, attempts were made by the Audit Office to quantify, on an estimated basis, the total unfunded liability of the Province from all pension plans. In the 1979-80 report, it was estimated that the total unfunded pension liability was of the order of \$3.8 billion. Since the issue of that report, actuarial valuations of the liabilities of The Public Service Management Pension Act plan and The M.L.A. Pension Act plan have been obtained. Using these and related figures, and working in conjunction with the Payroll and Pensions Division of the Office of the Controller, the Audit Office has estimated the unfunded plan liabilities at March 31, 1981.

#### The Local Authorities Pension Act Plan

#### The Public Service Pension Act Plan

Actuarial valuations of these two plans, performed as at April 1, 1979, revealed liabilities of \$1,146,979,000 and \$972,809,000 respectively (this is disclosed in Note 6 to the financial statements of the General Revenue Fund). Using future annual projections provided by the actuaries, the total estimated liability under these two plans at March 31, 1981 amounts to \$2,535,000,000.

#### The Public Service Management Pension Act Plan

#### The M.L.A. Pension Act Plan

Actuarial valuations of these two plans, performed as at March 31, 1981 revealed liabilities of \$431,600,000 and \$18,521,000 respectively.

#### The Universities Academic Pension Act Plan

#### The Special Forces Pension Act Plan

In 1976, actuarial valuations were performed on the then proposed Universities' Academic and Special Forces pension plans. Applying the actuaries' recommended annual percentage increments over the intervening years to March 31, 1981 produces an estimated total liability for the two plans at that date of \$370,000,000.

#### The Teachers' Retirement Fund Act Plan

An actuarial valuation of this plan at August 31, 1978 revealed an unfunded liability of \$742,000,000. Applying the actuaries' recommended annual percentage increments over the intervening years to March 31, 1981 produces an estimated unfunded liability for the plan at that date of \$867,000,000.

#### General

It should be noted however that actuarial assumptions and methods, though consistent within the above groupings, varied in some respects between each of those groupings. Although the effect on the total unfunded liability projections of using actuarial assumptions and methods consistent with The Local Authorities Pension Act plan and The Public Service Pension Act plan (the two largest of the plans) has not been quantified, it is believed that it would not be



significant. This is not to imply, however, that those assumptions and methods are the most appropriate to be used across all plans. Two years have elapsed since these two plans were actuarially valued and assumptions normally reflect the current view of future economic expectations.

An aggregation of the estimates in the preceding paragraphs indicates that at March 31, 1981 the total liability of the Province of Alberta with respect to the seven pension plans amounted to approximately \$4.2 billion. If the recommendation contained in sub-section 2.4.3 of this report had been adopted, the liability covered by Pension Fund assets would reduce this amount by \$1.1 billion, leaving a net unfunded liability at March 31, 1981 of approximately \$3.1 billion.

If the financial reporting practice recommended in the opening paragraph of this sub-section was adopted for the General Revenue Fund for liabilities in respect of accrued pension obligations, the net unfunded liability of \$3.1 billion would be shown as a liability on the Fund's balance sheet, which would have the effect of converting the Fund's surplus of \$2.3 billion at March 31, 1981 to a deficit of \$0.8 billion. Similarly, the surplus on the consolidated balance sheet of the Province would be reduced from \$9.9 billion to \$6.8 billion.

The Auditor General's reports to the Legislative Assembly for the 1978-79 and 1979-80 fiscal years contained the recommendation (1978-79: No. 34) repeated below. The Provincial Treasurer responded to this recommendation in a report to the Select Standing Committee on Public Accounts in October 1981. That response stated that an effort was being made to have all pension plans evaluated by April 1982 but that information available was not sufficiently current to reflect a liability in the financial statements of the General Revenue Fund and of the Province. In addition the response indicated that pending the outcome of studies (not specified) being conducted in the private sector, it was appropriate to defer reporting the unfunded liability on financial statements. The response also referred to the establishment of the Pension Fund, the initial transfer thereto of capital funds from the General Revenue Fund to reduce the unfunded liability, and the ongoing transfer thereto from the General Revenue Fund of the excess of contributions over current pension costs.

Notwithstanding the transfer of funds mentioned in the previous paragraph (which will include the effect of the introduction of employer contributions for all members of The Public Service Pension Act plan, The Public Service Management Pension Act plan and The M.L.A. Pension Act plan from April 1, 1981) and notwithstanding the effect of the income to be earned from the Pension Fund assets, it is expected that without further transfers of capital sums from the General Revenue Fund, or without an increase in contributions or a reduction in pension benefits, the large unfunded liability will continue to grow.

The Auditor General acknowledges the steps taken by Management: to continue the process of obtaining actuarial valuations for each pension plan, to reduce the current total unfunded liability, and to reduce the growth of this liability in the future. However the process of obtaining actuarial valuations is still not complete and the Provincial Treasurer has neither accepted nor rejected the recommendation to reflect the unfunded liability in the financial statements but has deferred making a decision on this issue.

In addition, although it may be necessary for the liability for unrecorded pension obligations to be an estimate which is less than precise, its inclusion in the financial statements will disclose the financial position of the Province with greater accuracy than if the liability is ignored. Consequently, with only minor modifications, the previous recommendation is repeated.

Recommendation: (No. 37)

(1978-79: No. 34)

*It is recommended that:*

*(a) The Treasury Department continue to:*

- (i) obtain actuarial valuations for all pension plans under its administrative responsibility and to have actuarial valuations conducted at least triennially thereafter,*
- (ii) obtain computer produced actuarial valuation projections for all pension plans, which can form a basis for annual interim valuations of each plan.*

(b) *Consideration be given to reflecting the unfunded liability arising under the various pension plans as a liability in the financial statements of the General Revenue Fund and the Province. This could be accomplished by:*

- (i) creating a liability in the financial statements of the General Revenue Fund and the Province sufficient to cover the unfunded liability for past service of employees as the liability becomes known,*
- (ii) thereafter creating a liability in the financial statements of the General Revenue Fund and the Province for any increase in the unfunded liability as revealed by successive actuarial valuations or actuarial projections, allocating the appropriate portion of this sum to government programs as an additional cost.*

*If the unfunded liability is to be shown as a liability in the financial statements of the General Revenue Fund and the Province, the assumptions and methods used in arriving at the valuations should be disclosed in the financial statements and efforts should be made to use uniform assumptions and methods, where appropriate, across all plans.*

#### 2.4.5 PROGRAM CHARGES OFFSET AGAINST REVENUE

Governments normally adhere to the practice of reporting revenues and expenditures separately in their budgets and published financial statements. This enables total annual revenues and expenditures to be readily ascertained, and where a program budgeting system is used, has the added advantage of providing the legislative body and the public with details of amounts spent on each government approved program. If, however, program expenditures are offset against revenue (ie. shown net for budgeting and reporting purposes), these advantages are lost.

In most respects, the financial statements of the General Revenue Fund and the Province adhere to the principle that revenues and expenditures should be shown separately. However, in the following two cases, they do not:

1. The Exploratory Drilling Incentive and the Geophysical Incentive programs are designed to encourage the drilling of exploratory oil and natural gas wells and exploration surveys respectively. They are programs of the Alberta Legislature and, accordingly, if the above mentioned accounting principle is applied, costs incurred under these programs should be reflected as program expenditures in budget estimates and in the financial statements of the General Revenue Fund (and the Province).

Most costs incurred under these two programs are not paid to recipients by the Province. Instead, drilling companies are allowed to deduct credits due to them under these programs from royalties payable to the Province under The Mines and Minerals Act. To report these transactions correctly in budget estimates and the financial statements of the General Revenue Fund, revenue should be "grossed up" by the total of credits deducted, and the credits should be reflected as program expenditures. This is not done, however, and in budget estimates and the financial statements of both the General Revenue Fund and the Province, most costs incurred under these programs are reflected as deductions from non-renewable resources revenue.

The impact on the reported figures for the 1980-81 fiscal year, caused by the above, is that both total revenues and total expenditures are understated by \$148 million (1979-80: \$99 million).

2. In certain circumstances, Alberta taxpayers are entitled to deduct Renter Assistance credits, Royalty Tax credits and Political Contribution deductions when calculating income tax payable to the Province. These are Provincial programs approved by the Alberta Legislature. Accordingly, the costs of delivering these programs should be reflected as program expenditures in the budget estimates and the financial statements of both the General Revenue Fund and the Province.



The impact on the reported figures for the 1980-81 fiscal year, caused by the above, is that both total revenues and total expenditures are understated by \$146 million (1979-80: \$132 million).

As can be seen from the above, total revenues and total expenditures in the 1979-80 and 1980-81 financial statements were understated by \$231 million and \$294 million respectively.

The Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year commented upon the above practices and contained the recommendations (1979-80: Nos. 35 and 36) repeated below. The Provincial Treasurer responded to these recommendations in a report to the Select Standing Committee on Public Accounts in October 1981. That response stated:

"The Government agrees that consistency in financial reporting is desirable. However, the accounting treatment should also reflect the programme provisions and regulations. The accounting methods now used already achieve that to the extent that credits claimed are offset against revenue and only actual disbursements are budgeted for as expenditure and are treated as such."

In connection with this response, it should be noted that the Auditor General's recommendation does not relate to either the manner in which programs should be delivered or funds paid or allowed. The recommendation refers to the financial presentation of the programs' costs in the Public Accounts and the manner in which those costs are budgeted, since it is agreed that the financial statements should reflect the Legislatively approved budget format.

It should also be noted that although these expenditure programs are in accordance with the relevant statutes, annual budgetary provisions for the expenditures are not approved by the Legislative Assembly and, to that extent, the Assembly's annual control over public spending is weakened.

The Provincial Treasurer's report also stated:

"The Government agrees that consideration should be given to the matter of "tax expenditures". The first approach to identification of tax expenditures might be by way of budget discussion papers which is consistent with the approach taken by other governments that are examining this problem."

Recommendation: (No. 38)

(1979-80: No. 35)

*It is recommended that, in the interest of more consistent financial presentation, all costs in connection with the delivery of the Exploratory Drilling Incentive and Geophysical Incentive programs be budgeted as expenditures in the annual Estimates and disclosed as expenditures in the Public Accounts of the Province. This will involve the aggregation of credits allowed and grants paid under these programs.*

Recommendation: (No. 39)

(1979-80: No. 36)

*It is also recommended that consideration be given to applying similar budgeting and financial statement disclosure requirements in other instances where significant program costs have been netted against revenue. For example, provincial taxation revenue has hitherto been presented net of Renter Assistance credits, Royalty tax credits, Political Contribution deductions and Taxation Administration fees.*

## 2.4.6 SYNCRUDE — CHANGE IN BASIS OF ACCOUNTING

During the 1980-81 fiscal year, it was observed that a change in accounting policies had reduced by \$1,747,628 the Province of Alberta's share of the deemed net profit from the Syncrude Project.

Under the terms of the Alberta Crown Agreement, Syncrude Canada Limited operates the Syncrude Project on behalf of the participants in the project. Alberta Royalty is not a participant, but receives the Province of Alberta's share of the project's profits in lieu of



royalties. The Syncrude Project, together with Alberta Royalty, constitute the Alberta Joint Venture.

Schedule A to the Alberta Crown Agreement prescribes the accounting principles and conventions to be used when determining the operating results of the Alberta Joint Venture. For example, the schedule defines "Allowed Operating Costs" as "those costs in respect to the Syncrude Project incurred to produce Synthetic Crude Oil . . .", although it does not stipulate allocation between operating periods. However, it does specify that certain costs, which might otherwise be treated as prepaid (being land reclamation deposits with the Province), "shall be allowed as deductions from Deemed Gross Revenue in lieu of any accrual for future land reclamation".

Schedule A also requires the use of "generally accepted accounting principles . . . unless otherwise set out in this manual" and stipulates that "the accounting principles adopted shall be applied on a consistent basis from period to period unless otherwise mutually agreed . . .".

Furthermore, Schedule A provides that at the date of start of production, there should be "due apportionment of amounts accrued and prepaid . . .". From the above, there appears little doubt that Schedule A contemplates that the financial statements of the Alberta Joint Venture shall be prepared, except in specified circumstances, on an accrual basis of accounting.

Pursuant to the Alberta Crown Agreement, the financial statements of the Alberta Joint Venture, which determine the amount of royalties payable, are prepared by Syncrude Canada Limited. From the start of production on March 1, 1979, to December 31, 1979, these financial statements were prepared on an accrual basis of accounting. For the year ended December 31, 1980, however, although Syncrude Canada Limited continued to maintain its accounting records on an accrual basis, the financial statements of the Alberta Joint Venture reflected a change in the basis of accounting for certain prepaid insurances and natural gas purchases.

A note to the financial statements of the Alberta Joint Venture referred to this as "a change in accounting treatment" which was "subject to the acceptance of Alberta Royalty". It also stated that if this change had not been made, the deemed net profit of the Alberta Joint Venture would have been increased by \$3,495,257.

As explained in sub-section 4.1.7. of this report, the Auditor General is not the auditor of the Syncrude Project. However, under the terms of the Alberta Crown Agreement, acting on behalf of the Minister of Energy and Natural Resources, the Audit Office has the right to post-audit, on a continuing basis, its accounting records. As a result of this auditing activity, on March 30, 1981 the Auditor General advised the Minister of Energy and Natural Resources that the change in accounting treatment effectively deferred the Province of Alberta's share of the deemed net profit of the Syncrude Project by \$1,747,628. It was also recommended that a refund due from the Province to the Syncrude participants be reduced by this amount.

The Auditor General's recommendation was adopted by the Minister of Energy and Natural Resources and at a meeting of the involved parties on September 18, 1981, Alberta Royalty expressed concern at the accounting treatment adopted in the financial statements of the Alberta Joint Venture. Although no consensus was reached, the Accounting Sub-Committee of the Management Committee of the Syncrude Project has agreed to reconsider the accounting treatment adopted.

## 2.5 UNCORRECTED SYSTEMS WEAKNESSES AND DEFICIENCIES ORIGINALLY DETECTED IN PREVIOUS YEARS.

### 2.5.1 ALBERTA ENVIRONMENTAL RESEARCH TRUST

During an audit for the year ended December 31, 1978, it was observed that the Trust was maintaining two bank accounts at an Edmonton Treasury Branch. This practice was in contravention of Part 4 of The Financial Administration Act, 1977, particularly since an application to exempt the Trust from the provisions of Part 4 of the Act was refused by the Office of the Controller in March 1978.

Despite a recommendation to the Chairman of the Board of Trustees by the Auditor General that the two bank accounts be closed, the audit for the year ended December 31, 1979 revealed that both accounts were still in use.

Because this matter had remained unresolved for two consecutive years, it was included in the Auditor General's report for the 1979-80 fiscal year. It was also recommended that the Board of Trustees instruct the Administrative Secretary to close the two bank accounts.

During the audit for the year ended December 31, 1980, it was observed that one bank account had been closed and assurances were received from the Trust's management that the other account will be closed. Accordingly, the recommendation is not repeated in this report.

### 2.5.2 ALBERTA RESEARCH COUNCIL

The Alberta Research Council is a Provincial agency which provides research and technical services for private business and Government. Its annual revenues and expenditures approximate to \$22 million and it administers assets with a value in excess of \$18 million.

An audit for the year ended March 31, 1979 revealed serious and pervasive deficiencies in the Council's internal control systems and accounting records. These matters were eligible for inclusion in the Auditor General's report to the Legislative Assembly for the 1978-79 fiscal year. However, they were not included since assurances were received from the Council's President that all major deficiencies would be rectified by March 31, 1980.

Despite these assurances, however, an audit for the year ended March 31, 1980 revealed that most previously noted deficiencies remained uncorrected. Accordingly, these matters were included in the Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year. To illustrate the deficiencies, the report included lengthy excerpts from the Auditor General's management letters issued at the conclusion of audits for the years ended March 31, 1979 and 1980, together with the President's responses to the former.

In a letter to the Auditor General dated January 12, 1981, the President stated that during 1980, the Council had hired additional staff and reorganized its accounting department in order to resolve the problems identified. The President noted, however, that owing to the extent of those problems and the significant staff turnover experienced, it was anticipated that the establishment of a fully satisfactory accounting system may take a further twelve months.

An audit for the year ended March 31, 1981 revealed that action had been taken, or was being taken to correct a number of previously noted concerns. However, financial control and accounting record deficiencies still existed in many important areas. These deficiencies were discussed with senior officials of the Council at the conclusion of the audit in November 1981, and included in a management letter to the Council's President dated December 23, 1981. The substance of these matters was as follows:

#### Fixed Assets

Systems to record, account for and safeguard fixed assets continued to be inadequate. In particular, the Council had been unable to complete a detailed inventory or proper valuation of

its fixed assets, which was attempted in February 1980, or to verify ownership of certain assets held. For these reasons, the Auditor General was unable to satisfy himself that fixed assets were stated fairly on the balance sheet at March 31, 1981 and, accordingly, it was necessary to qualify the auditor's report on the Council's financial statements.

The Auditor General recommended that the Council undertake another physical count of its fixed assets as quickly as possible, and that every effort be made to establish the original cost of assets held and to resolve uncertainties as to ownership. A proper fixed asset control record should then be established incorporating for each asset details of description, means of identification, location and cost. In addition, policies should be established governing capitalization limits, transfers and disposals.

Management has indicated that a complete fixed asset system is being developed which will be implemented during the first half of 1982.

#### Project Accounting System

The Council undertakes research projects which are sponsored by private business and Government entities. These projects are governed by terms and conditions contained in contracts between the Council and the sponsoring entity.

The accounting system (records) used to monitor the financial status of individual projects was again found to be inadequate. Manpower and overhead costs were not always reflected properly in project accounts, resulting in inadequate project control and inaccurate billings to sponsors. It was again recommended that a project costing and accounting system be implemented to ensure that all costs are properly recorded, that costs are recovered where applicable, that expenditures on patents are treated in accordance with project contracts and that projects are monitored on an ongoing basis.

Management has indicated that priority is being given to the design and implementation of a project accounting system which will integrate with the recently introduced time reporting system. It is anticipated that the new system will be in place early in the 1982-83 fiscal year.

#### Project Contracts

Financial control over research projects was further hampered by poorly drafted contract documents. Some contracts were silent on such important matters as types of time chargeable to the sponsor, disposition of assets acquired for the project, allocation of overhead costs and treatment of supplementary and escalated costs. These omissions also contributed to problems when billing project costs to sponsors. Furthermore, the Audit Office experienced difficulty verifying the accuracy of billings to sponsors because project files often lacked the necessary financial information to support such billings.

The Auditor General recommended that, where possible, standard forms (or clauses) be used for research project contracts to ensure the inclusion of all appropriate financial arrangements. It was also recommended that supporting financial and other information to support billings to sponsors be retained on project files.

#### Accounts Receivable

Deficiencies were again noted in procedures used to invoice and follow-up accounts receivable. These resulted in the following concerns:

- Similar services were invoiced at varying rates. This was because a number of locations were involved in preparing invoices using different rates and bases.
- Some invoices contained calculation errors, which were not discovered since no independent check for accuracy was performed.
- No control was exercised to prevent misuse of blank invoices and to ensure that all invoices used were entered in the accounts receivable records.
- There were considerable delays in invoicing some sponsors.
- Formal procedures did not exist for the prompt and ongoing follow-up of overdue accounts receivable.



Management has indicated that these deficiencies are being addressed and will be eliminated by the new project accounting system.

#### Expenditure

Although most of the concerns raised during previous audits relating to inaccurate year-end cut-off were eliminated at March 31, 1981, many of the problems in connection with processing invoices for payment persisted. Among these problems were that:

- Procedures were not in effect to ensure that refunds or credit notes were received for goods returned to suppliers.
- Too many expenditure officers were appointed, each authorized to approve expenditures within prescribed limits and with overlapping responsibilities, thereby reducing the effectiveness of the approval process.
- Certain invoices were not signed by an appropriate expenditure officer and, therefore, were paid without proper approval. Similarly, other invoices were approved for payment by expenditure officers when the monetary amounts involved were in excess of the limits the expenditure officers were authorized to approve.
- Certain packing slips evidencing delivery of goods could not be located and, in addition, certain purchase orders were missing.

In addition, it was observed that systems to control the purchase and custody of goods for inventory were either inadequate or non-existent. Considerable difficulties were experienced during the inventory count at March 31, 1981 due to lack of knowledge on the part of management as to the various locations at which inventory was stored.

The Auditor General recommended that the Council review the appropriateness of expenditure officer appointments and ensure that all officials involved in approving expenditures are fully conversant with the requirements of the approval system. It was also recommended that proper policies and procedures be established to control ordering and receiving goods and recording inventories.

#### Payroll

Weaknesses in the payroll processing and distribution system reported in previous years persisted throughout the 1980-81 fiscal year. Staff whose duties involved the preparation and summarization of payroll data were also responsible for matching cheques to the payroll registers and distributing cheques. This situation creates potential for individual staff members to fraudulently instigate and subsequently obtain cheques with little likelihood of detection.

In addition, control exercised over payroll related data submitted for computer processing was weak, in that batch controls or similar procedures were not used to ensure the completeness of data processed and the accuracy of output reports and cheques produced.

The Auditor General recommended that control over payroll be strengthened by segregating non-compatible clerical functions and instituting a batch control and reconciliation system.

#### General

The Auditor General acknowledges the Council's ongoing efforts to correct the systems' weaknesses and deficiencies revealed by audits for the three years ended March 31, 1981. He also recognizes that these efforts have been hampered by difficulties experienced in acquiring and retaining suitably qualified accounting staff. Nevertheless, the weaknesses and deficiencies outlined above have persisted for the last three years, and in most cases, even longer. Accordingly, it is vital that priority be given to their elimination in order to safeguard the public funds and assets administered by the Council.

#### Recommendation: (No. 40)

(1979-80: No. 45)

*It is recommended that the Alberta Research Council take immediate and vigorous action to eliminate the pervasive and serious financial control problems in its fixed assets, sponsors' projects, sponsors' contracts, accounts receivable, expenditure and payroll accounting systems.*

### 2.5.3 DEPARTMENT OF ENERGY AND NATURAL RESOURCES — MAIN ACCOUNTS RECEIVABLE SYSTEM

In May 1979, the Department of Energy and Natural Resources implemented a new computer based revenue and accounts receivable accounting and reporting system. The system had been designed and developed by the Department to record and report annual revenues in excess of \$4 billion and was called the Main Accounts Receivable System (MARS).

In his report to the Legislative Assembly for the 1979-80 fiscal year, the Auditor General outlined the many problems experienced by the Department during the development, conversion, implementation and post implementation phases of MARS. It was concluded, for reasons stated in the report, that these phases were poorly managed and performed and that the Department has expended considerable public resources developing and operating a system which was still far from providing all of its originally perceived benefits. The Auditor General acknowledged the Department's attempts to recover from this situation and recommended a continuation of those efforts to ensure that MARS was capable eventually of meeting the Department's accounting and management information requirements.

The audit for the 1980-81 fiscal year revealed that substantial progress had been made towards eliminating many of the operating deficiencies in MARS. The Department is now producing revenue reports in an accurate and timely manner. As a result of this progress, the recommendation is not repeated in this report.

In his 1979-80 report, the Auditor General also recommended that the Department continue to seek to obtain and retain sufficient accounting, systems and management skills to enable it to exercise adequate control over the development and operation of its accounting and management information systems.

Since issuance of the 1979-80 report, the Department has restructured its Finance and Administration Division under a newly appointed Associate Deputy Minister. An Assistant Deputy Minister-Finance position and three Director positions have been established and filled. In addition, other senior positions have been established and recruitment efforts are in progress to fill them.

In view of this major restructuring and the improvements noted during the 1980-81 audit, the Auditor General's recommendation is not repeated in this report.

### 2.5.4 DEPARTMENT OF THE ATTORNEY GENERAL

During an audit of the Department of the Attorney General for the period ended August 31, 1978, it was observed that the Department was charging and collecting various lottery fees without legislative authority. This situation was brought to the attention of the Deputy Attorney General in a letter from the Auditor General dated January 23, 1979. However, when the next audit was performed in February 1980, it was found that the problem remained unresolved.

Because the situation had remained unresolved for two consecutive years, it was included in the Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year with the recommendation that the Department of the Attorney General seek legislative authority to collect lottery licence fees.

By order in council 124/81 dated February 11, 1981, the Lieutenant Governor, pursuant to section 190 of the Criminal Code of Canada, designated The Alberta Gaming Commission an authority to issue licences subject to such terms and conditions as may be prescribed by the Commission. At its hearing on March 19, 1981, The Alberta Gaming Commission approved a Licencing Policy Guideline for publication in the Alberta Gazette setting out various licencing terms and conditions covering the issue of lottery licences.

Since this matter has now been resolved, the recommendation is not repeated in this report.



## 2.5.5 HEALTH CARE INSURANCE FUND

The Health Care Insurance Fund operates under the authority of The Alberta Health Care Insurance Act and provides health care insurance coverage to Albertans. Premiums are charged to residents on either an individual basis or through group accounts with employers. Total premiums during 1980-81 amounted to approximately \$122 million.

In the Auditor General's reports to the Legislative Assembly for both the 1978-79 and 1979-80 fiscal years, it was reported that reconciliations of premiums charged, with premiums received from employers were considerably and consistently in arrears. Despite efforts by the Department of Hospitals and Medical Care to rectify this situation, the audit for the year ended March 31, 1981 revealed that it had deteriorated further.

This matter was discussed again with senior management during the course of the audit for the 1980-81 fiscal year and formally reported to the Deputy Minister of Hospitals and Medical Care in a management letter dated November 4, 1981, which stated:

"As previously reported, it was again observed that there was a significant backlog in the reconciliations of group accounts receivable. The amounts of cash received that had not been reconciled to group billings were \$8,395,969 at March 31, 1979, \$13,420,955 at March 31, 1980 and \$30,633,010 at March 31, 1981. Significant progress was, however, made subsequent to March 31, 1981 and at September 11, 1981, the amount was down to \$15,421,731. Although the timing of the recording of revenue is not materially affected, the magnitude of these amounts is indicative of the degree to which the reconciliation process is in arrears. There will always be a certain balance of unreconciled receipts but significant progress must still be made before this area can be considered to be in a current condition. It is again recommended that measures be taken to reduce to a minimum the outstanding reconciliations of group billings with cash received from employers and that efforts be continued to implement revised computer systems in order to facilitate more efficient and timely reconciliation procedures".

The Auditor General's reports to the Legislative Assembly for the 1978-79 and 1979-80 fiscal years contained the recommendation (1978-79: No. 25) repeated below. The Provincial Treasurer responded to this recommendation in a report to the Select Standing Committee on Public Accounts in October 1981. That response stated that the Department of Hospitals and Medical Care has suffered from a shortage of skilled and experienced clerical staff in the area of group premium reconciliations and that in-house training programs have been introduced to provide special training to staff in group premium reconciliations. It also stated that the Department is increasing its efforts to revise computer systems in order to facilitate more efficient and timely reconciliation procedures.

Since satisfactory corrective measures had not been taken by the end of the 1980-81 fiscal year, this recommendation is repeated:

Recommendation: (No. 41)

(1978-79: No.25)

*It is recommended that measures be taken by the Department of Hospitals and Medical Care to reduce to a minimum the backlog in monthly reconciliations of Health Care Insurance Fund premiums charged, with premiums received from employers, and that efforts be continued to implement revised computer systems in order to facilitate more efficient and timely reconciliation procedures.*

In addition to the recurring arrears situation in connection with reconciling group premiums, the audit for the year ended March 31, 1981 also revealed that bank reconciliations had fallen in arrears. Expenditures of the Health Care Insurance Fund during the 1980-81 fiscal year amounted to approximately \$361 million. Because the Fund issues such a large number of cheques, bank reconciliation procedures are difficult and time consuming. The audit revealed that bank reconciliations were not prepared on a regular basis during 1980-81 and the following paragraph was included in a management letter to the Deputy Minister of Hospitals and Medical Care dated November 4, 1981:

"It was noted that bank reconciliations had not been prepared for the benefit payment account since August 1980 and for the disbursement bank account since November 1980.



This situation is largely due to difficulties encountered in the production of accurate and timely outstanding cheque lists. These lists were found to contain many cheques that had been cashed as well as cheques that had been replaced and on which a stop payment had been placed. Due to the very large volume of cheques involved, progress to isolate and correct these errors has been slow. A decision has now been made to close these bank accounts December 31, 1981 and to open new accounts effective January 1, 1982. Consideration is being given to the use of a new system, to be operated by the Royal Bank of Canada, for the production of outstanding cheque lists for the new accounts. It is recommended that the possibility of using the Treasury Cheque Status System (TCSS) operated by the Treasury Department also be considered and that the cost to the Province of using the Royal Bank of Canada system instead of the TCSS be evaluated. It is also recommended that sufficient resources be applied to bring reconciliations of the old accounts up to date and to ensure that reconciliations of the new accounts are prepared monthly on a current basis. All reconciliations should be carefully reviewed and approved by supervisory personnel".

Recommendation: (No. 42)

*It is recommended that the Department of Hospitals and Medical Care take appropriate steps to complete bank reconciliations for the Health Care Insurance Fund on a timely basis and ensure that these reconciliations are carefully reviewed and approved by supervisory personnel.*

Recommendation: (No. 43)

*It is recommended that the Department of Hospitals and Medical Care consider using the Treasury Cheque Status System, operated by the Treasury Department, to produce outstanding cheque lists for the Health Care Insurance Fund.*

## 2.5.6 PENSION ADMINISTRATION

The annual audit of the Public Service Pension Administration for the 1978-79 fiscal year revealed a general lack of adequate accounting and management controls. These control deficiencies, together with recommendations for their elimination, were formally communicated to management at the conclusion of the audit. Although management agreed to take corrective action, the more important of these control deficiencies were included in the Auditor General's report to the Legislative Assembly for the 1978-79 fiscal year, since it was apparent that they could not be eliminated within one year. The Auditor General's report for that year also recommended that the Public Service Pension Administration develop and implement a long-term plan to resolve the deficiencies revealed by the audit.

To deal with this situation, responsibility for pensions' administration was transferred to the Treasury Department. In a report to the Select Standing Committee on Public Accounts in October 1980, the Provincial Treasurer stated that his Department was undertaking a review of pensions' management, organization and systems. However, although it was anticipated that significant progress would be made dealing with deficiencies during the 1980-81 fiscal year, many systems improvements would be implemented as part of a longer-term plan.

The Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year acknowledged that progress had been made towards eliminating certain accounting and management control deficiencies. While the matters still requiring corrective action were not described in detail, the Auditor General recommended that the Treasury Department continue with its efforts to eliminate the control deficiencies remaining.

The Provincial Treasurer responded to this recommendation in a report to the Select Standing Committee on Public Accounts in October 1981. That response stated that accounting and data processing functions were being reorganized and that accounting practices were to be further reviewed. It also stated that the Office of the Controller had reviewed the scope and adequacy of controls in place, and that specific plans had been defined and would be implemented for improving financial control.

The audit for the 1980-81 fiscal year revealed that a large number of previously identified and

reported accounting and management control deficiencies had not been corrected. Furthermore, additional control weaknesses were identified and reported to the Provincial Treasurer.

It is now apparent to the Audit Office that the magnitude of the problems which remain is such that if the progress of corrective action continues at its present rate, elimination of the problems will take several more years. It is, therefore, essential that additional resources be employed in an effort to expedite progress.

Recommendation: (No. 44)

(1979-80: No. 44)

*It is recommended that the Treasury Department intensify its efforts to eliminate the accounting and financial control deficiencies in the operations and accounting records of the Pension Administration.*

## 2.5.7 TREASURY BRANCHES

During the audit of the Treasury Branches Deposits Fund for the year ended March 31, 1980, it was noted that data produced by the main Term Deposits Computer System was not reconciled to branch records on a timely basis. These reconciliations are important financial controls which, if they are to be effective, must be performed on a timely basis.

This matter was brought to the attention of Treasury Branches' management during the course of the audit and formally reported to the Deputy Provincial Treasurer in a management letter dated September 10, 1980, which stated:

"It was noted that Treasury Branches were not able to reconcile, on a current basis, the Term Deposits Computer System with the records maintained by various branches. The regular balancing of the General Ledger with these computer reports is an important internal control and should be as current as possible. Treasury Branches have indicated that for the June, 1980 quarter, all but nine Branches have been balanced as to principal by August 7, 1980 and that the main reason for the non-current reconciling was due to the heavy turnover in term deposits because of the fluctuating interest rates. Treasury Branches have indicated that improvement in this area is expected very soon."

In a response to the Auditor General dated November 4, 1980, the Deputy Provincial Treasurer stated:

"Continued efforts are being made by Treasury Branches to reconcile the computer records of Term Deposits with Branch records. As at 16-Sep-80, only one Branch remained unreconciled for 31-Mar-80. One further Branch is unreconciled for 30-Jun-80. It is confidently expected that, in the future, the two independent records will be reconciled at the end of each quarter."

The above matter was subject to report to the Legislative Assembly under section 19(2)(d) of The Auditor General Act. However, under the discretionary powers provided by section 19(5) of the Act, it was not included since remedial action had been promised.

During the audit for the year ended March 31, 1981 it was observed that the problem still persisted. Accordingly, the matter was discussed again with senior management and again formally reported to the Deputy Provincial Treasurer in a management letter dated August 21, 1981, which stated:

". . . as previously reported, Treasury Branches were not able to reconcile, on a current basis, the Term Deposits Computer System with the records maintained by the branches. The regular balancing of the system to branch records for both principal and interest is an important internal control and should be maintained on a current basis."

Recommendation: (No. 45)

*It is recommended that the Treasury Branches Deposits Fund establish procedures to ensure that Term Deposits Computer System data are reconciled to branch records on a current and ongoing basis.*



## 2.6 LIMITATIONS OF ACCESS TO INFORMATION

(Reported pursuant to sub-section 19(1)(b) of The Auditor General Act)

### 2.6.1 AUDIT OF PROVINCIAL INCOME TAXES

The Government of Alberta has entered into a tax collection agreement with the Government of Canada under authority contained in sub-section 51(1) of The Alberta Income Tax Act, Chapter 182, Revised Statutes of Alberta 1970. The agreement provides that the Government of Canada, as agent of the Government of Alberta, will collect the income taxes imposed under The Alberta Income Tax Act.

The terms of the tax collection agreement dealing with access to information, effectively prohibit the Auditor General of Alberta from performing the audit work necessary to express an opinion on the collection of provincial income taxes as required by sub-section 19(2)(a)(i) of The Auditor General Act. This sub-section requires the Auditor General of Alberta to report every case in which he has observed that collections of public money have not been effected as required under the various Acts and regulations, directives or orders under those Acts.

The legislative auditors of those provinces that have entered into similar tax collection agreements are subject to the same access restrictions. Since the Auditor General of Canada has access to all the necessary information, the legislative auditors agreed in 1979 to form a task force made up of representatives of the provincial legislative auditors and the Auditor General of Canada.

The objective of the task force is to obtain assurance, to the extent possible within the audit limitations imposed by the tax collection agreement, that the assessment, allocation and transfer to the provinces of provincial income taxes by the Government of Canada complies with the federal and provincial statutes and agreements, and to report its findings to the provincial legislative auditors.

In order to address this objective, the task force first determines the audit concerns of the provinces. It then reviews the relevant scope, procedures and findings of audits conducted by the Office of the Auditor General of Canada, covering the Department of National Revenue-Taxation and the Department of Finance. The task force does not perform any auditing of the Federal Government's taxation records.

The Auditor General of Alberta has reviewed the findings contained in the first and second reports of the task force concerning the assessment, allocation and transfer to the provinces of provincial income taxes for the 1978 tax returns. Based on this review, the Auditor General is satisfied that to the extent that systems were reported upon by the task force, there were no observed deficiencies in accounting systems or control procedures that require to be reported.

As previously reported in the Auditor General's report to the Legislative Assembly for the 1979-80 fiscal year, the task force in conducting its work was aware of the existence of a tax gap. The tax gap is the difference between taxes actually assessed and an estimate of the taxes which could theoretically be assessed, presuming full compliance with the law. The size of the gap depends on the extent to which taxpayers voluntarily comply with the provisions of the federal income tax act and the various provincial income tax acts, and on the extent and type of procedures employed by the Department of National Revenue-Taxation to ensure compliance with tax legislation. It was recommended in the Auditor General's 1979-80 report that the Provincial Treasurer either prepare an estimate, or obtain and review the Federal Government's estimate, of unassessed income taxes (tax gap) in order to facilitate an evaluation by the Treasury Department of the adequacy and appropriateness of the compliance and enforcement procedures employed by the Department of National Revenue-Taxation in the collection of Alberta income taxes.

The Provincial Treasurer responded to this recommendation in a report to the Select Standing Committee on Public Accounts in October 1981. That response indicated that the Government of Alberta will work with other provincial governments in assessing the best method by which



the collection activities of the Department of National Revenue-Taxation can be evaluated. In view of this reply the recommendation is not repeated.

The Auditor General's 1979-80 report recommended that consideration be given to eliminating the circumstances which restrict the Auditor General of Alberta's right of access to certain taxation records. The Provincial Treasurer, in his response to this recommendation in October 1981, indicated that he would raise the matter of obtaining appropriate rights of access to taxation records during the federal-provincial negotiations on the tax collection agreement. These access rights would be obtained with a view to promoting a joint audit with the Auditor General of Canada and the various provincial legislative auditors.

During the year, the task force prepared a draft proposal covering suggested changes to the federal-provincial tax collection agreements to overcome the access restrictions imposed upon provincial legislative auditors. This draft proposal satisfies the requirements of the Auditor General of Alberta and the Auditor General of Canada and will, therefore, in due course, form the basis of a recommendation to the Provincial Treasurer that the proposed changes be considered.

Subject to such changes being reflected in the federal-provincial tax collection agreement and a legal opinion being obtained, the Auditor General of Canada and the Auditor General of Alberta are prepared to sign a memorandum of agreement which defines the policies and procedures to be adopted by both parties in the conduct of the audit of provincial personal income tax revenue. It is understood that other legislative auditors are contemplating entering into similar agreements with the Auditor General of Canada.

The Auditor General of Alberta acknowledges with gratitude the exceptional co-operation and assistance received from the Auditor General of Canada and his staff, and from the representatives of the other provincial legislative auditors involved, in developing these joint initiatives.

## 2.6.2 DEPARTMENT OF SOCIAL SERVICES AND COMMUNITY HEALTH

Generally accepted auditing standards require an auditor to obtain sufficient appropriate audit evidence to afford a reasonable basis to support the contents of his reports. Audit evidence consists of source documents, accounting records and other information which is pertinent to the auditor's examination.

It is for this reason that section 15 of The Auditor General Act states, in part, that "The Auditor General is entitled to access at all reasonable times to the records of a department . . . A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explanations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act."

Among the evidence that an auditor would normally examine are the minutes recording discussions and decisions made at meetings of senior management groups, and reports issued by internal auditors. However, the Department of Social Services and Community Health has refused the Audit Office right of access to:

- minutes of senior management committee meetings;
- minutes of policy committee meetings;
- minutes of finance staff meetings;
- the non-financial matters contained in the department's management audit branch reports.

This refusal limited, and will continue to limit, the scope of the audit of the department, and therefore of the General Revenue fund, and contravenes section 15 of the The Auditor General Act.

The principal reason advanced by the Department for refusing the Audit Office access to these minutes is that they contain information of a confidential nature. This refusal is despite section

15(4) of The Auditor General Act which states that "The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained."

In the overall context of the General Revenue Fund, this limitation of audit scope is not considered, by the Auditor General, to be sufficiently material to warrant the inclusion of a reservation in his report on the financial statements of the Fund pursuant to section 18 of The Auditor General Act.

However, as a result of this scope limitation, the Auditor General was unable to examine information which may have alerted him to matters reportable under section 19 of the Act.

Recommendation: (No. 46)

*It is recommended that the Minister of Social Services and Community Health remove the restrictions imposed by him upon the Auditor General's right of access to certain records maintained by the Department of Social Services and Community Health. This right of access is otherwise provided by section 15 of The Auditor General Act.*

## 2.7 GENERAL OBSERVATIONS

### 2.7.1 MIDDLE MANAGEMENT

In his report to the Legislative Assembly for the 1979-80 fiscal year, the Auditor General commented on the desirability of strengthening technical and managerial competence in certain areas of middle management within the Alberta public service. It was suggested that technical skills and managerial competence could be improved by introducing specially designed training courses and examinations. It was further suggested that overall managerial competence could be upgraded by a system which combined internal and external examination achievements with definitive promotion and demotion standards and meaningful and critical performance evaluations.

The effects of efforts underway to strengthen technical and managerial competence can not be evaluated in the short term. Accordingly, although the recommendations are not repeated in this report, the Audit Office will monitor the effects of action being taken and, if appropriate, this matter will be included in future reports to the Legislative Assembly.

### 2.7.2 PROGRAM EFFECTIVENESS

As explained more fully in sub-section 4.3 of this report, accountability to the legislative body is the cornerstone of the democratic system of government. An important part of the accountability process involves the tabling of annual public accounts which enable members of the legislative body to see how the funds appropriated at the commencement of the year were spent. When, as is usually the case, funds are appropriated for a specified program, it is normal for the legislative body to approve the program's objectives. In these situations, therefore, the accountability process will not be complete unless the program's administrators report to the legislative body on both how the appropriated funds were spent, and to what extent the expenditure of those funds achieved the program's legislatively approved objectives.

Measuring the extent to which a program has achieved its legislatively approved objectives is often referred to as measuring the effectiveness of the program.

In Alberta, the Public Accounts satisfy the accountability objective of reporting to the Legislative Assembly on how the funds were spent. However, the equally important objective of reporting on the program's effectiveness is not satisfied.

This should not be inferred as suggesting that the Public Accounts should include reports on program effectiveness. A more appropriate medium for reports of this nature would be the annual reports tabled each year in the Legislative Assembly by most departments and agencies. At present, these reports usually contain the financial statements or similar financial data of the department or agency and a review of its accomplishments. Only rarely do they contain a measurement of the extent to which accomplishments achieve the legislatively approved objectives of the programs the entities administer.

In the opinion of the Auditor General, this failure to report formally to the Legislative Assembly on program effectiveness is a serious deficiency in the accountability process.

The Auditor General's reporting mandate in connection with program effectiveness is contained in sub-section 19(2)(e) of The Auditor General Act. This sub-section requires the Auditor General to give details in his annual report to the Legislative Assembly of every significant case in which he has observed that where appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or were not being complied with.

The Audit Office acknowledges that it is not possible, feasible or economical to measure the effectiveness of all programs, or all parts of all programs. Nevertheless, where appropriate and



reasonable measurement procedures can be used, considerable benefits may be derived from establishing such procedures. For example, clearly defined program objectives and goals provide the Legislative Assembly with an appropriate definition of the purposes for which the funds it approves are to be spent. In addition, by subsequently measuring and reporting to the Legislative Assembly the extent to which the predetermined objectives were subsequently met, improved accountability is achieved.

The Auditor General's reports to the Legislative Assembly for both the 1978-79 and 1979-80 fiscal years commented upon the non-specific manner in which program objectives are defined and the lack of systems to measure and report on program effectiveness. Both reports also contained recommendations similar to the one (1978-79: No. 43) repeated below.

The Provincial Treasurer responded to the 1979-80 recommendation in a report to the Select Standing Committee on Public Accounts in October 1981. That response stated that the Estimates of Expenditure currently include a statement of program objectives. In addition to the financial reporting provided in the Public Accounts, showing actual expenditures compared to financial plans, quantitative and descriptive data on program activities is included in departmental annual reports which are tabled in the Legislature. The Government will give careful attention to the results of the Auditor General's audits of management control systems to identify areas where this data could more accurately measure program achievements.

The Auditor General is pleased with this response to the question of measuring and reporting on program effectiveness. However, in two respects the response may indicate a misunderstanding of the rationale behind the recommendation. Firstly, the problem is not that program objectives are not included in the Estimates of Expenditure; the problem is that in most cases they are defined in such a non-specific manner that it is not possible, in a meaningful way, to measure the extent to which they are achieved. Secondly, although annual departmental reports contain quantitative and descriptive data on program activities, effectiveness is not measured and reported on because the achievements resulting from those activities are not compared against specifically defined program objectives.

The Audit Office will seek to identify possible effectiveness measurement opportunities which might be considered. However, in the meantime the recommendation with regard to program effectiveness is repeated.

Recommendation: (No. 47)

(1978-79: No. 43)

*It is recommended that the objectives of each program be stated in as specific a manner as possible, with quantitative data being provided wherever practicable, as measures of the intended results to be achieved by the expenditure of the funds requested for the program. Upon completion of the fiscal year, reports should be prepared on behalf of the responsible Minister evaluating the achievements resulting from the expenditure of funds from a program, in terms of the objectives and quantitative data given in the estimates. These reports should result from an organized, documented and systematic evaluation of program activities and may be audited by the Auditor General. These reports would be laid before the Legislative Assembly by the Minister as a part of his accountability reporting.*

### 2.7.3 SENIOR FINANCIAL OFFICERS AND CHIEF INTERNAL AUDITORS

The Auditor General's Report to the Legislative Assembly for both the 1978-79 and 1979-80 fiscal years stressed the importance of properly qualified and/or experienced senior financial officers and the desirability of effective internal audit groups.

After expounding on the rationale for these observations, the reports made a number of recommendations in connection with the positions, qualifications, reporting responsibilities, appointment and duties of senior financial officers and chief internal auditors.

In response to these recommendations, the Treasury Department's Manual of Financial Administration has been updated to clarify the roles and responsibilities of both senior

financial officers and chief internal auditors. Except in unusual circumstances, senior financial officers and chief internal auditors of departments are now required to report directly to the deputy head. Furthermore, the duties and qualifications of individuals holding these offices have been defined and documented in greater detail. The Office of the Controller has issued standards for the operation of internal audit groups and has undertaken to evaluate the activities of these groups and adherence to established internal auditing standards.

The Auditor General had also recommended that the concurrence of the Controller be made a prerequisite to the appointment of senior financial officers and chief internal auditors. This recommendation has been rejected on the grounds that it is considered more appropriate that this responsibility should remain with the deputy head of a department or chief executive officer of a Provincial agency. However, the Controller has undertaken to advise the deputy head or chief executive officer where, as a result of his ongoing evaluation activities, he feels that senior financial officers or chief internal auditors are not carrying out their responsibilities.

It is believed that compliance with the changes outlined above should, in the future, contribute to improved accounting records and financial control. It is essential that when positions are upgraded, the individuals occupying them be subject to rigorous and dispassionate evaluation of their suitability for the upgraded position. Unless this practice is adopted, expected benefits will not materialize. It is anticipated that the performance evaluation function of the Office of the Controller will be of extreme importance in this regard.

There is, at the present time, a dearth of internal audit groups operating in a systematic fashion to acceptable auditing standards. In its Statement of Responsibilities, the Institute of Internal Auditors describes the role of internal audit as "an independent appraisal activity within an organization for the review of operations as a service to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls".

The setting of standards by the Office of the Controller should result in the establishment of an effective internal audit function in each department and agency where such control is considered appropriate. Progress in this regard will be monitored by the Audit Office and observations thereon will be included in future reports to the Legislative Assembly. Pending evaluation of these developments, the previously stated recommendations pertaining to senior financial officers and chief internal auditors are not repeated in this report.

### 3. PUBLIC ACCOUNTS

#### 3.1 AUDITOR'S REPORT

- 3.1.1 Under section 18 of The Auditor General Act, after the end of each fiscal year of the Crown, the Auditor General is required to report to the Legislative Assembly on the financial statements of the Crown for that fiscal year.


The report issued pursuant to section 18, on the consolidated financial statements of the Province for the year ended March 31, 1981, is reproduced hereunder:

#### AUDITOR'S REPORT

To the Members of the  
Legislative Assembly

I have examined the consolidated statement of realizable assets, liabilities and net assets of the Province of Alberta, which includes only those entities of the Crown subject to section 77 of The Financial Administration Act, 1977, as at March 31, 1981 and the consolidated statement of financial results for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Province of Alberta, which include only those entities of the Crown subject to section 77 of The Financial Administration Act, 1977, as at March 31, 1981 and the results of its operations for the year then ended in accordance with the disclosed basis of accounting described in Note 1 to the consolidated financial statements applied on a basis consistent with that of the preceding year.



C.A.  
Auditor General

December 29, 1981  
Edmonton, Alberta

- 3.1.2 The Public Accounts of the Province for the year ended March 31, 1981 are presented in two volumes. Volume I contains the following financial statements, together with the reports of the Auditor General thereon:

- 1) Consolidated financial statements of the Province of Alberta.
- 2) Financial statements of the General Revenue Fund.
- 3) Financial statements and schedules of revolving funds, regulated funds, Provincial agencies and trust funds administered by the Government.

Volume II contains details of expenditure and revenue by department, and statements and reports required to be included in Public Accounts in accordance with The Financial Administration Act, 1977 and other statutes. In addition to the Public Accounts, a report presenting details of expenditure by payee is provided as supplementary information.

- 3.1.3 The Auditor's Report in sub-section 3.1.1 above covers the consolidated financial statements of the Province. A similar Auditor's Report covers the financial statements of the General Revenue Fund — which are contained in Volume I of Public Accounts — as well as the various details of departmental expenditure and revenue contained in Volume II.

The report presenting details of expenditure by payee is not covered by the Auditor's Reports mentioned in the previous paragraph since it is not an integral part of Public Accounts. However, the system employed to produce the information contained therein is subject to review by the Auditor General.



- 3.1.4 The remainder of this section of the report provides an overview of the financial statements of the Province of Alberta (consolidated), the General Revenue Fund and the Alberta Heritage Savings Trust Fund with comments and supplementary information considered relevant.

## 3.2 CONSOLIDATED FINANCIAL STATEMENTS OF THE PROVINCE OF ALBERTA

- 3.2.1 The accounting principles employed in preparing the consolidated financial statements of the Province are described in Note 1 thereto under the heading Summary of Significant Accounting Policies and Reporting Practices. These financial statements are not prepared, nor do they purport to be prepared, in accordance with generally accepted accounting principles. However, reporting practices employed at variance with generally accepted accounting principles are in accordance with recommendations contained in "Financial Reporting by Governments", a research study published in 1980 by the Canadian Institute of Chartered Accountants.

- 3.2.2 It is acknowledged that when consolidating government entities, it is not always possible or desirable to adhere to the generally accepted accounting principles employed by private sector entities. In the private sector, a consolidation involves the aggregation of the financial statements of the parent entity with the financial statements of its subsidiary entities on a line-by-line basis and the elimination of inter-entity balances and transactions. While the consolidated financial statements of the Province comply with private sector consolidation principles in most respects, they deviate from them as follows:

- (1) The consolidation does not include the financial statements of the Provincially owned universities, colleges, hospitals and certain related funds (see sub-section 4.1.3 of this report) which are exempted from inclusion in Public Accounts by section 2(5) of The Financial Administration Act, 1977.
- (2) The consolidation does not include the financial statements of the Board of Trustees of Northland School Division No. 61. Although the Division is a Provincial corporation, no surplus or deficit arises from its operations, and accordingly, its inclusion in the consolidated statements would have no significant effect on the financial results of the Province.

In addition, although it is a regulated fund, the consolidation does not include the financial statements of the Pension Fund.

- (3) The consolidation does not include the financial statements of Crown-controlled organizations (see sub-section 4.1.9 of this report), in which the Province holds a majority of the voting shares, and which therefore could be considered subsidiary entities. Similarly, it does not include the financial statements of the Alberta Energy Company Ltd., in which the Province holds 50% of the voting shares and which might be considered a subsidiary entity depending upon the degree of influence exercised in its affairs by the Province. Since these entities are not "Provincial corporations", they are not subject to section 77 of The Financial Administration Act, 1977 and are therefore excluded from Public Accounts.

- (4) The Treasury Department has designated the following entities "commercial enterprises":

Alberta Liquor Control Board,  
Alberta Terminals Ltd.,  
The Alberta General Insurance Company,  
The Alberta Government Telephones Commission,  
The Workers' Compensation Board,  
Treasury Branches Deposits Fund.

The assets and liabilities of these commercial enterprises are not aggregated in the consolidated statement of realizable assets, liabilities and net assets (balance sheet) on a line-by-line basis, but are recorded therein on an equity accounting basis.

The treatment of these entities, for consolidation purposes, is in accordance with the recommendations contained in the Canadian Institute of Chartered Accountants' publication "Financial Reporting by Governments".

- 3.2.3 The contents of the preceding sub-section should not be interpreted as criticism. (However, see the recommendation relating to the Pension Fund contained in sub-section 2.4.3 of this report.) These comments are intended to provide the reader with an outline of the more

significant differences between the methods employed by the Province, and the methods normally used when consolidating groups of commercial companies. The methods of consolidation, the bases of accounting and those entities which have and have not been included in the consolidation, are explained and described in Note 1 to the consolidated financial statements.

Changes and improvements will undoubtedly be made to the consolidated financial statements in future years. Nevertheless, in the opinion of the Auditor General, the accounting bases and methods of consolidation presently employed are reasonable and appropriate in the circumstances. In particular, the Auditor General acknowledges as a significant improvement over prior years' presentation, the reporting of consolidated revenues and expenditures on a line-by-line basis in the Consolidated Statement of Financial Results for the year ended March 31, 1981.

It should be noted that because of various accounting adjustments and the elimination of inter-entity balances, it is not possible in all cases to directly relate figures appearing in the financial statements of the accounting entities consolidated with figures appearing in the consolidated financial statements.

- 3.2.4 Although as stated above, the Consolidated Statement of Financial Results was consolidated on a line-by-line basis for 1980-81, the following summarized statement is provided herein to show the origins of the surpluses and deficits:

	1981	1980
	(Millions of Dollars)	
Departmental budgetary surplus (deficit)	\$(411.6)	\$ (28.3)
Net income (loss) of consolidated entities:		
Regulated funds	1,985.5	1,520.1
Provincial corporations	(167.2)	13.5
Provincial committees	—	(1.5)
Income retained by commercial enterprises	(28.6)	42.2
Consolidated net revenue	1,378.1	1,546.0
Items included in consolidated net revenue not affecting cash	(67.6)	40.9
Funds provided by operations	1,310.5	1,586.9
Financing transactions:		
Receipts	887.6	1,070.2
Disbursements	2,831.9	1,979.0
	(1,944.3)	(908.8)
Net funds provided (required)	(633.8)	678.1
Add (deduct):		
Increase in receivables	(325.6)	(213.9)
Increase in payables	232.6	262.2
	(93.0)	48.3
Increase (decrease) in cash and term deposits	\$(726.8)	\$ 726.4)

The following shows the consolidated “net assets” (surplus) at the end of the year compared with the previous year:

	1981	1980
	(Millions of Dollars)	
Net assets at beginning of year as previously stated	\$8,581.0	\$7,053.7
Prior period adjustment	(50.9)	(69.6)
Net assets at beginning of year as restated	8,530.1	6,984.1
Consolidated net revenue	1,378.1	1,546.0
Net assets at end of year	\$9,908.2	\$8,530.1

The 1980 figures have been restated where necessary to conform to the 1981 presentation.

If the recommendation contained in sub-section 2.4.4 of this report had been adopted at March 31, 1981, the net assets (surplus) of the Province would have been \$6.8 billion.



3.2.5 The following comparative summary shows consolidated revenue and expenditure on a per capita basis for the years ended March 31, 1981 and 1980:

	ACTUAL			PER CAPITA		
	1981	1980	Increase (Decrease)	1981	1980	Increase (Decrease)
<b>REVENUE</b>						
Non-renewable resources revenue	\$4,809,131,000	\$4,493,784,000	\$315,347,000	\$2,233	\$2,172	\$ 61
Taxes	1,709,944,000	1,241,429,000	468,515,000	794	600	194
Investment income	1,299,166,000	855,877,000	443,289,000	603	414	189
Payments from Government of Canada	790,099,000	665,490,000	124,609,000	367	322	45
Other fees, permits and licences	366,127,000	344,640,000	21,487,000	170	167	3
Utility and trading profits	204,696,000	233,811,000	(29,115,000)	95	113	(18)
Pension funds	161,906,000	133,123,000	28,783,000	75	64	11
Other revenue	130,514,000	156,174,000	(25,660,000)	61	75	(14)
Total revenue	9,471,583,000	8,124,328,000	1,347,255,000	4,398	3,927	471
<b>EXPENDITURE</b>						
Health	1,489,886,000	1,183,955,000	305,931,000	692	572	120
Education	1,384,789,000	1,219,602,000	165,187,000	643	590	53
Transportation	579,374,000	488,027,000	91,347,000	270	236	34
General Government	602,207,000	538,876,000	63,331,000	280	260	20
Social allowances and payments	515,136,000	401,779,000	113,357,000	239	194	45
Cultural and Recreational Development	461,347,000	406,709,000	54,638,000	214	197	17
Municipal Affairs	355,430,000	213,291,000	142,139,000	165	103	62
Environment	305,785,000	134,050,000	171,735,000	142	65	77
Utilities and Telephones	233,108,000	201,000,000	32,108,000	108	97	11
Economic Development, Tourism and Small Business and Labour	224,175,000	102,241,000	121,934,000	104	49	55
Justice, Policing and Correctional Institutions	217,869,000	180,592,000	37,277,000	101	87	14
Energy and Natural Resources	200,297,000	156,449,000	43,848,000	93	76	17
Agriculture	158,008,000	128,766,000	29,242,000	73	62	11
*Provision for unrealized losses on marketable securities	(62,541,000)	191,975,000	(254,516,000)	(29)	93	(122)
Total expenditure of all Departments, Provincial Corporations, Committees, Funds and Agencies included in consolidation	6,664,870,000	5,547,312,000	1,117,558,000	3,095	2,681	414
Statutory Appropriations:						
The Pension Fund Act	1,100,000,000	—	1,100,000,000	511	—	511
The Hospital Debt Retirement Act	328,597,000	—	328,597,000	152	—	152
The Municipal Debt Reduction Act	—	1,031,015,000	(1,031,015,000)	—	499	(499)
Total expenditure	8,093,467,000	6,578,327,000	1,515,140,000	3,758	3,180	578
Net revenue	\$1,378,116,000	\$1,546,001,000	\$ (167,885,000)	\$ 640	\$ 747	\$(107)

Population, estimated by Statistics Canada, 2,153,200 at April 1, 1981 (1980: 2,068,800)

\* Pertains primarily to marketable securities held by the Alberta Heritage Savings Trust Fund (1981: (\$19,963,000); 1980: \$88,898,000) and the General Revenue Fund (1981: (\$43,563,000); 1980: \$103,358,000)

- 3.2.6 Indirect liabilities (contingent liabilities) disclosed in the General Revenue Fund and consolidated financial statements were \$4,800.3 million and \$446.5 million respectively (1980: \$4,217.9 million and \$439.2 million). The following statement reflects the accounting adjustments required for consolidation purposes as at March 31, 1981 and 1980:

	1981	1980
	(Millions of Dollars)	
Indirect liabilities in the General Revenue Fund financial statements	\$4,800.3	\$4,217.9
Deduct net guaranteed debt of Provincial corporations and commercial enterprises included above, eliminated on consolidation:		
Treasury Branches Deposits Fund	2,281.3	1,882.8
Alberta Municipal Financing Corporation	1,714.9	1,547.4
Alberta Government Telephones Commission	250.1	265.5
Alberta Housing Corporation	110.8	113.2
Alberta Resources Railway Corporation	60.1	78.1
Alberta Home Mortgage Corporation	24.2	3.2
	<u>4,441.4</u>	<u>3,890.2</u>
Guaranteed debt of outside organizations and individuals	<u>358.9</u>	<u>327.7</u>
Add debt of outside organizations and individuals guaranteed by the following Provincial Corporations, not included in indirect liabilities in the General Revenue Fund financial statements:		
Alberta Agricultural Development Corporation	86.7	105.7
Alberta Home Mortgage Corporation	—	5.1
Alberta Opportunity Company	0.9	0.7
	<u>87.6</u>	<u>111.5</u>
Indirect liabilities in the consolidated financial statements	<u>\$ 446.5</u>	<u>\$ 439.2</u>

The 1980 figures have been restated where necessary to conform to the 1981 presentation.

As indicated in the foregoing reconciliation, indirect liabilities disclosed in the consolidated financial statements consist only of amounts payable by outside organizations and individuals guaranteed by the Province of Alberta.

- 3.2.7 The following rights and obligations accrue to the Province pursuant to its participation in the Syncrude joint venture:

Pursuant to the terms of agreements dated February 1975, the Alberta Heritage Savings Trust Fund loaned \$100 million each to Gulf Canada Ltd., and Canada-Cities Service Ltd., both of which are participants in the syncrude joint venture. These loans are secured by debentures which are convertible at the holder's option to an interest in the borrower's equity in the joint venture at any time before March 1, 1984. Upon exercise of the option, the capitalized interest to March 1, 1979 in the amount of \$36 million will be treated as part of the option consideration. In December 1981, the Province served notice to each of the borrowers that it was electing to exercise its option effective January 1, 1982. The amount of the borrowers' equity which will be transferred to the Province has yet to be determined.

The participants in the Syncrude joint venture are committed to provide financing for offsite accommodation for Syncrude Canada Ltd., employees. Northward Developments Ltd., is a company formed for the purpose of providing offsite housing and is owned by the participants in the same ratio that they participate in the Syncrude joint venture. At March 31, 1981 it was estimated that capital costs to complete offsite housing projects amounted to \$21 million.

Responsibility for construction of a utilities plant to service the Syncrude Project was assumed by A.E.C. Power Ltd., an Alberta company in which Alberta Energy Company Ltd., holds two-thirds of the issued share capital. Under the authority of Order in Council 602/76 dated June 1, 1976, the Province has guaranteed loans (including accrued interest) to A.E.C. Power Ltd., which at March 31, 1981 amounted to approximately \$252 million. The guarantees become effective if, at any time, the joint venture participants give notice to A.E.C. Power Ltd., that the Syncrude Project has been abandoned.

Responsibility for construction or acquisition of a pipeline for the transportation of synthetic crude oil was assumed by Alberta Oil Sands Pipeline Ltd., an Alberta company wholly owned by Alberta Energy Company Ltd. If at any time the Syncrude joint venture participants give notice to the Company that the Syncrude Project has been abandoned, the participants are committed to guarantee (in their participation ratio) repayment of any outstanding debt incurred by the Company for the financing of the pipeline.

The participants in the Syncrude joint venture have entered into an agreement covering the construction, financing and operation of a natural gas pipeline to supply natural gas to the Syncrude Project. In the event of abandonment of either the Syncrude Project or the pipeline, the Syncrude joint venture participants may be required to repay (in their participation ratio) any amounts owing with respect to the bonds issued to finance the pipeline construction. Furthermore, in the event of default by the pipeline operator, the participants may purchase, at fair market value, the operator's interest in the operating equipment and may assume the operator's rights and obligations under the pipeline lease agreement.

Under the terms of the Alberta Crown Agreement, which stipulates the basis of calculation of the Province's royalty relating to the Syncrude Project, the Project was deemed to have entered its operating phase on March 1, 1979. From that date, the Province had a direct 50% interest, in lieu of royalty, in the deemed net profits of the joint venture. At the discretion of the Province, the 50% interest may be taken in product and sold directly, or sold by the participants on behalf of the Province. The Province has an irrevocable option, which may be exercised once only, and after March 1, 1984, to convert its 50% interest in the deemed net profit to a 7½% interest in the gross production of the Project. This interest also may be taken in product and sold directly, or sold by the other participants on behalf of the Province. Both of the above interests are subject to a requirement that 30% of the Province's revenue from non-renewable resources be transferred to the Alberta Heritage Savings Trust Fund, providing that the transfer is authorized by a special Act.

By virtue of its 8% interest in the joint venture, the Province of Alberta (through the Alberta Heritage Savings Trust Fund) has an 8% interest in the venture's production and is responsible for a proportionate share of costs and expenditures incurred in connection with the operation of the joint venture.



### 3.3 GENERAL REVENUE FUND

3.3.1 The following shows the summarized financial results of the General Revenue Fund for the year ended March 31, 1981, with comparative figures for 1980:

	<u>1981</u>	<u>1980</u>	<u>Increase/(Decrease)</u>	
	<u>(Millions of Dollars)</u>			
Revenue	<u>\$6,578.3</u>	<u>\$5,668.2</u>	<u>\$ 910.1</u>	16.1%
Expenditure:				
Voted appropriations	<u>5,548.6</u>	<u>4,531.3</u>	<u>1,017.3</u>	22.5%
Statutory appropriations	<u>12.7</u>	<u>134.2</u>	<u>(121.5)</u>	(90.5%)
	<u>5,561.3</u>	<u>4,665.5</u>	<u>895.8</u>	19.2%
Budgetary surplus before extraordinary appropriations	<u>1,017.0</u>	<u>1,002.7</u>	<u>14.3</u>	1.4%
Extraordinary statutory appropriations:				
*The Hospital Debt Retirement Act	<u>328.6</u>	<u>—</u>	<u>328.6</u>	
**The Pension Fund Act	<u>1,100.0</u>	<u>—</u>	<u>1,100.0</u>	
The Municipal Debt Reduction Act	<u>—</u>	<u>1,031.0</u>	<u>(1,031.0)</u>	
	<u>1,428.6</u>	<u>1,031.0</u>	<u>397.6</u>	
Budgetary deficit	<u>\$ 411.6</u>	<u>\$ 28.3</u>	<u>\$ 383.3</u>	

\* Under authority of The Hospital Debt Retirement Act, assented to on April 30, 1980, an amount of \$328.6 million was charged as expenditure-statutory expenditure in 1980-81. The primary purpose of the expenditure was to provide for the full repayment of outstanding principal and payment of accrued interest on hospital and nursing home debentures issued prior to March 31, 1980. The expenditure consisted mainly of a payment of \$11.6 million to the Alberta Municipal Financing Corporation and a cancellation of \$298.8 million of debentures and \$8.4 million of related accrued interest owing by the same Corporation to the General Revenue Fund.

\*\* Under authority of The Pension Fund Act, assented to on November 27, 1980, an amount of \$1,100 million was charged as expenditure-statutory expenditure in 1980-81. Sections 1 and 2 of the Act, which authorize the establishment of the Fund and the transfer of \$1,100 million from the General Revenue Fund were proclaimed and came into force on February 13, 1981. (See section 2.4.4 of this report for discussion of unfunded pension plan liabilities).

- 3.3.2 The following provides a summary of the transactions accounting for the increase (decrease) in cash and term deposits during the year ended March 31, 1981, with comparative figures for 1980:

	1981	1980
	(Millions of Dollars)	
Budgetary deficit	\$(411.6)	\$(28.3)
Items included in budgetary deficit not affecting cash	(38.1)	109.4
Funds provided by (required for) budgetary transactions	(449.7)	81.1
*Non budgetary transactions:		
Decrease in loans and advances	(0.7)	36.1
Purchase of investments	(1.9)	(180.5)
Debt retirement including sinking fund	(10.9)	(7.4)
Increase in unearned revenue and suspense	45.2	13.0
	31.7	(138.8)
Net funds provided (required)	(418.0)	(57.7)
Deduct (add):		
Increase in receivables	(149.0)	(73.2)
Increase in payables	25.1	173.4
	(123.9)	100.2
Increase (decrease) in cash and term deposits	\$(541.9)	\$ 42.5

- \* Net repayment of loans and advances to Government funds and enterprises and others.  
The 1980 figures have been restated where necessary to conform to the 1981 presentation.

- 3.3.3 The following provides a comparison, in summarized form, of the financial results for the year ended March 31, 1981 with the 1980-81 estimates:

	Actual	Estimates	Over/(Under) Estimates	
	(Millions of Dollars)			
Revenue	\$6,578.3	\$7,158.0	\$(579.7)	(8.1)%
Expenditure:				
Voted appropriations	5,548.6	5,368.4	180.2	3.4 %
Statutory appropriations	1,441.3	1,539.4	(98.1)	(6.4)%
Total expenditure	6,989.9	6,907.8	82.1	1.2 %
Budgetary deficit	(411.6)	250.2	(661.8)	
Items included in budgetary deficit not affecting cash	(38.1)	—	(38.1)	
Funds provided by (required for) budgetary transactions	(449.7)	250.2	(699.9)	
Increase in receivables and payables	(123.9)	—	(123.9)	
Non budgetary transactions	31.7	(5.0)	36.7	
Increase (decrease) in cash and term deposits	\$(541.9)	\$245.2	\$(787.1)	

During the 1980-81 fiscal year, expenditure estimates were supplemented by special warrants totalling \$593.2 million, for a total of \$7,501.0 million. Of this amount, \$2.7 million was required to meet liabilities recorded in the financial statements of the 1979-80 fiscal year leaving \$7,498.3 million available for the 1980-81 fiscal year. A comparison of total actual expenditure with the \$7,498.3 million shows that authorized funds remained unexpended in the amount of \$508.4 million.

- 3.3.4 The following shows the changes in Net Assets (Surplus) of the General Revenue Fund during the years ended March 31, 1981 and 1980:

	1981	1980
	(Millions of Dollars)	
Net assets at beginning of year	\$2,697.1	\$2,725.4
Budgetary deficit	(411.6)	(28.3)
Net assets (surplus) at end of year	\$2,285.5	\$2,697.1

The net assets (surplus) at the end of the year should be viewed in light of the recommendation contained in sub-section 2.4.4 of this report.

- 3.3.5 The following are extracts from the notes to the financial statements of the General Revenue Fund relating to significant accounting policies and reporting practices:

- (1) "The reporting entity is the General Revenue Fund. Activities of Provincial agencies and regulated funds are recorded only to the extent of advances made from or repaid to the General Revenue Fund, contributions to cover expenses or operating deficits and repayments of contributions in excess of current requirements . . ." (Note 2(a))
- (2) "Revenues are reported on an accrual basis except for personal and corporate income taxes which are reported on a cash basis". (Note 2(b))
- (3) ". . . all pension contributions were credited as revenue to the General Revenue Fund of the Province and payments required under the Acts were made through appropriation therefrom. Subsequent to March 31, 1981 receipts and disbursements of monies received or required to be paid under the above Pension Acts are accounted for in the financial statements of the Pension Fund . . ." (Note 2(b))
- (4) "No provision is made in the financial statements for accrued employee vacation entitlements, amounts payable under The Alberta Income Tax Act, commitments under construction or other contracts and agreements in force at the year end, including equipment capital leases." (Note 2(b))
- (5) "Consistent with the reporting of capital acquisitions as expenditure, fixed assets are recorded only at a nominal value of \$1." (Note 2(b))
- (6) "The total liability of the Province under The Public Service Management Pension Act and the M.L.A. Pension Act, based on actuarial valuations at March 31, 1981, amounted to \$431,600,000 and \$18,522,000 respectively." (Note 3).
- (7) "The total liability of the Province under The Local Authorities Pension Act and The Public Service Pension Act, based on actuarial valuations at April 1, 1979, amounted to \$1,146,979,000 and \$972,809,000 respectively." (Note 3).
- (8) "An actuarial valuation as at August 31, 1978 indicated that Teachers' Retirement Fund assets will be insufficient by an amount of approximately \$742,000,000 to meet the liabilities of the fund." (Note 3)
- (9) "No provision has been made in the financial statements for contingent liabilities resulting from litigation and guarantees." (Note 4)

Observations and recommendations in connection with the unfunded liabilities of pension plans are contained in sub-section 2.4.4 of this report. Furthermore, recommendations in connection with the non-inclusion of costs relating to accommodation, furniture, fixtures and equipment in program delivery costs are contained in sub-section 2.4.1.

- 3.3.6 A further matter to be considered with regard to the General Revenue Fund Net Assets balance is contained in the note relating to carrying value of the Province's investment in Pacific Western Airlines Ltd. This note, which appears in Volume I, Schedule 2.4 of the Public Accounts reads as follows:

"The investment in Pacific Western Airlines Ltd., which represents 99.82% of the outstanding voting shares, has not been adjusted for the Province's share of retained earnings. Pacific



Western Airlines Ltd. reported earnings for the year ended December 31, 1980 of \$12,236,000 (1979: \$12,796,000) and retained earnings at December 31, 1980 of \$52,407,000 (1979: \$40,171,000)."

3.3.7 The following comparative summary shows revenue by major source, expenditure-voted appropriations by department (over \$100 million) and expenditure-statutory appropriations:

REVENUE	1981	% of Revenue/ Expenditure	1980	% of Revenue/ Expenditure
	Actual		Actual	
Non renewable resources revenue	\$4,809,131,080		\$4,493,783,642	
Less: Allocation to Alberta Heritage Savings Trust Fund	1,442,739,324		1,347,527,035	
Allocation to Natural Gas Rebates Fund	37,571,176		—	
	1,480,310,500		1,347,527,035	
	3,328,820,580	50.60	3,146,256,607	55.51
Taxes	1,586,817,571	24.12	1,140,808,408	20.13
Payments from Government of Canada	670,044,473	10.19	598,406,744	10.56
Interest	361,061,781	5.49	258,349,621	4.56
Utility and trading profits	227,803,659	3.46	180,982,705	3.19
Other fees, permits and licenses	162,397,835	2.47	137,832,701	2.43
Other revenue	241,334,626	3.67	205,559,399	3.62
Total revenue	6,578,280,525	100.00%	5,668,196,185	100.00%
<b>EXPENDITURE</b>				
Voted appropriations:				
Hospitals and Medical Care	1,056,282,617	15.11	822,130,545	14.43
Education	728,002,477	10.42	663,111,511	11.64
Social Services and Community Health	615,896,407	8.81	484,380,277	8.50
Transportation	586,632,951	8.39	483,915,193	8.50
Advanced Education and Manpower	546,451,461	7.82	456,808,758	8.02
Housing and Public Works	394,245,041	5.64	321,463,520	5.64
Environment	304,730,560	4.36	133,772,406	2.35
Treasury	176,177,570	2.52	171,717,347	3.02
Municipal Affairs	169,963,330	2.43	139,235,614	2.45
Utilities and Telephones	145,034,218	2.07	165,065,256	2.90
Energy and Natural Resources	143,813,407	2.06	99,756,174	1.75
Solicitor General	134,177,368	1.92	109,591,879	1.92
Agriculture	116,608,675	1.67	93,733,283	1.65
Other departments	430,589,122	6.16	386,669,929	6.79
Total expenditure-voted appropriations	5,548,605,204	79.38	4,531,351,692	79.56
Statutory appropriations:				
The Hospital Debt Retirement Act	328,597,088	4.70	—	—
The Pension Fund Act	1,100,000,000	15.74	—	—
The Municipal Debt Reduction Act	—	—	1,031,014,997	18.08
Other	12,719,057	0.18	134,175,690	2.36
Total expenditure	6,989,921,349	100.00%	5,696,542,379	100.00%
Budgetary deficit	\$ 411,640,824		\$ 28,346,194	

The 1980 figures have been restated where necessary to conform to the 1981 presentation.

### 3.3.8 Non-Renewable Resources Revenue

Revenue derived from depleting resources is of major significance to the Province. The following is a comparative summary of non-renewable resources revenue, before allocation to the Alberta Heritage Savings Trust Fund, and the percentage such revenue is of total revenue for the years ended March 31, 1981, 1980 and 1979.

	1981	1980	1979
Royalties:			
Crude oil	\$1,969,061,826	\$1,899,884,534	\$1,684,788,673
Natural gas and natural gas by-products	1,903,045,370	1,509,890,974	1,182,922,922
Synthetic crude oil	224,921,419	46,247,009	28,780,974
Coal	8,263,299	7,543,171	18,237,838
	<u>4,105,291,914</u>	<u>3,463,565,688</u>	<u>2,914,730,407</u>
Sale of petroleum and natural gas rights	758,838,550	1,057,732,138	677,514,338
Rentals and fees	93,476,751	71,268,079	77,337,037
Bonus — Adjustment to reflect accounting policy change	—	—	9,000,000
	<u>4,957,607,215</u>	<u>4,592,565,905</u>	<u>3,678,581,782</u>
Deduct:			
Credits applied against amounts owing to the Province:			
Exploratory drilling incentive program	143,415,142	92,683,022	70,710,302
Geophysical incentive program	5,060,993	6,099,241	15,388,362
	<u>148,476,135</u>	<u>98,782,263</u>	<u>86,098,664</u>
Net non-renewable resources revenue	<u>\$4,809,131,080</u>	<u>\$4,493,783,642</u>	<u>\$3,592,483,118</u>
Net non-renewable resources revenue expressed as a percentage of General Revenue Fund revenue before allocation to the Alberta Heritage Savings Trust Fund and the Natural Gas Rebates Fund	<u>59.70%</u>	<u>64.05%</u>	<u>60.18%</u>

Notes: The above summary does not include receipts from the Government of Canada under the 1974 oil pricing agreement.

Synthetic crude oil royalties for 1981 includes \$151 million representing royalty received from the Syncrude Joint Venture.

### 3.3.9 Income Tax Receipts

Under the provisions of a tax collection agreement, the Government of Canada as agent of the Province, collects for and on behalf of the Province net individual and corporate income taxes imposed under The Alberta Income Tax Act and remits amounts in respect thereof to the Province. All costs, charges and expenses incurred in the collection of taxes by the Government of Canada to administer the Provincial Act are paid by the Government of Canada. In consideration of the collection of taxes by the Government of Canada, the Province allows the Government of Canada to retain any penalties, fines or other amounts awarded in judicial proceedings (except penalties imposed under section 20 of the Provincial Act) together with any interest that is payable by a taxpayer under the Provincial Act. The Government of Canada charges fees to the Province for administering the various tax rebate, tax credit and other tax reduction programs.

The tax collection agreement provides that for each taxation year, the Government of Canada shall pay instalments of estimated assessments to the Province beginning on March 1 of the taxation year in question and ending in February of the next taxation year. Fifteen months after the taxation year ends, the Government of Canada shall settle with the Province for all taxes assessed, for the taxation year in question, on individuals three months prior to the settlement date and on corporations one month prior to the settlement date. Taxes assessed after the aforementioned cut-off dates are to be paid to the Province together with settlements for subsequent taxation years.

On January 1, 1981 the Province started collecting Provincial income tax instalments directly from corporations liable to income taxes under The Alberta Corporate Income Tax Act. Corporations with fiscal years beginning prior to January 1, 1981 continue to make instalment payments to and file tax returns with the Government of Canada, which will remit the taxes assessed to the Province in the manner described above. Corporations with fiscal years beginning after December 31, 1980 make instalment payments to and file tax returns with the Province.

The following are analyses, by taxation years, of individual and corporate income tax instalment receipts on account and assessments and the cost of related tax reduction programs and administration fees for the years ended March 31, 1978 to 1981:



# INDIVIDUAL INCOME TAXES

	Taxation Year	Fiscal year received/paid			
		1977-78	1978-79	1979-80	1980-81
Income tax instalments*/ assessments (Note 1):	1975	\$ 11,260,693	\$ —	\$ —	\$ —
	1976	3,489,967	12,665,319	—	—
	1977	527,430,000*	31,985,126	20,415,491	—
	1978	51,814,000*	581,966,000*	56,001,921	24,371,531
	1979	—	55,672,000*	656,933,000*	78,975,403
	1980	—	—	66,388,000*	784,508,000* (Note 2)
	1981	—	—	—	83,184,000* (Note 2)
Share of unapplied taxes (Note 3)		5,736,038	4,595,942	3,714,778	6,276,684
Gross income tax instalments*/assessments		599,730,698	686,884,387	803,453,190	977,315,618
Less:					
Renter Assistance Credits:	1975	244,004	—	—	—
	1976	19,261,212	369,613	—	—
	1977	—	21,316,461	1,407,960	—
	1978	—	—	23,131,121	602,064
	1979	—	—	—	29,723,542
		19,505,216	21,686,074	24,539,081	30,325,606
Royalty tax credits:	1975	1,926,453	—	—	—
	1976	3,377,083	948,698	—	—
	1977	—	3,307,668	1,081,903	—
	1978	—	—	3,605,558	1,671,378
	1979	—	—	—	5,437,307
		5,303,536	4,256,366	4,687,461	7,108,685
Royalty tax rebates:	1975	439,584	—	—	—
	1976	577,176	130,161	—	—
	1977	—	765,281	1,089,512	—
	1978	—	—	564,770	304,538
	1979	—	—	—	1,027,365
		1,016,760	895,442	1,654,282	1,331,903
Political contribution deductions (Note 4):	1978	—	—	233,634	8,916
	1979	—	—	—	511,768
		—	—	233,634	520,684
Total tax credits, rebates and deductions		25,825,512	26,837,882	31,114,458	39,286,878
Administration fees		258,255	268,379	311,145	392,869
Total deductions		26,083,767	27,106,261	31,425,603	39,679,747
Net income tax instalments*/assessments		<u>\$573,646,931</u>	<u>\$659,778,126</u>	<u>\$772,027,587</u>	<u>\$937,635,871</u>

Notes:

- 1) Personal income taxes assessed are reported net of Provincial foreign tax credits and selective tax reductions.
- 2) Though instalments of income taxes have been received for the 1980 and 1981 taxation years, there are no reductions for the related tax rebates, tax credits and tax deductions as the 1980 and 1981 taxation years have not yet been settled with the Government of Canada.
- 3) Unapplied taxes are amounts deducted at source from employees that have not, because of the failure of such employees to file returns, been applied to taxes payable by individuals.
- 4) There are no comparative figures for political contribution deductions for earlier years since the plan only applies to the 1978 and subsequent taxation years.

## CORPORATE INCOME TAXES

	Taxation Year	Fiscal year received/paid			
		1977-78	1978-79	1979-80	1980-81
Income tax instalments*/ assessments (Note 1):	1975	\$ 16,680,029	\$ (236,252)	\$ —	\$ —
	1976	71,491,656	20,095,453	37,213	—
	1977	287,114,400*	93,042,301	40,963,499	183,559
	1978	37,187,500*	398,805,500*	(41,000,712)	52,293,992)
	1979	—	40,296,000*	405,926,000*	(13,535,038)
	1980	—	—	41,872,000*	495,025,000* (Note 2)
	1981	—	—	—	52,544,326* (Notes 2 & 3)
	1982	—	—	—	7,313,204* (Notes 2 & 3)
		<u>412,473,585</u>	<u>552,003,002</u>	<u>447,798,000</u>	<u>593,825,043</u>
Allocated to Utility Companies Income Tax Rebates Fund under The Utility Companies Income Tax Rebates Act, 1977, section 3 (Note 4 )		<u>—</u>	<u>22,179,416</u>	<u>21,314,207</u>	<u>6,561,566</u>
Gross income tax instalments*/assessments		<u>412,473,585</u>	<u>529,823,586</u>	<u>426,482,793</u>	<u>587,263,477</u>
Less:					
Royalty tax rebates:	1975	11,498,910	—	—	—
	1976	23,273,155	36,062,231	—	—
	1977	54,725,000*	8,180,855	11,989,227	—
	1978	5,590,500*	74,409,500*	(19,715,271)	18,225,963
	1979	—	8,332,000*	111,668,000*	(43,647,040)
	1980	—	—	11,248,000*	68,752,000*
	1981	—	—	—	832,000* (Note 5)
		<u>95,087,565</u>	<u>126,984,586</u>	<u>115,189,956</u>	<u>44,162,923</u>
Royalty tax credits:	1975	9,529,021	—	—	—
	1976	43,505,074	31,630,654	—	—
	1977	—	76,920,389	15,432,124	9,491
	1978	—	—	87,214,193	16,171,509
	1979	—	—	—	91,995,359
		<u>53,034,095</u>	<u>108,551,043</u>	<u>102,646,317</u>	<u>108,176,359</u>
Political contribution deductions (Note 6):	1978	—	—	29,727	4,900
	1979	—	—	—	150,895
		<u>—</u>	<u>—</u>	<u>29,727</u>	<u>155,795</u>
Total tax rebates, credits and deductions		<u>148,121,660</u>	<u>235,535,629</u>	<u>217,866,000</u>	<u>152,495,077</u>
Administration fees		<u>250,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
Total deductions		<u>148,371,660</u>	<u>235,585,629</u>	<u>217,916,000</u>	<u>152,545,077</u>
Net income tax instalments*/assessments		<u>\$264,101,925</u>	<u>\$294,237,957</u>	<u>\$208,567,793</u>	<u>\$434,718,400</u>



Notes:

- 1) Corporate income taxes assessed are reported net of Provincial corporate capital gains refunds.
- 2) Though instalments of income taxes have been received for the 1980, 1981 and 1982 taxation years, there are no reductions for the related royalty tax credits and political contribution deductions as these taxation years have not yet been settled with the Government of Canada or directly with the corporations.
- 3) The instalments received for the 1981 taxation year included \$41,452,326 received directly from corporations by the Province. All instalments received on account for the 1982 taxation year were received directly from corporations.
- 4) Allocations to Utility Companies Income Tax Rebates Fund consist of payments made to the Fund of all Provincial income taxes paid or estimated to have been paid by utility companies, carrying on a business in Alberta, on revenues earned on sales to the public of electrical energy, gas or steam in the Province. The utility companies have given undertakings to the Provincial Treasurer that all Provincial payments to them will be distributed to persons who are its wholesale or retail customers in Alberta.
- 5) Collecting corporate income taxes directly from taxpayers has changed the method of recording income tax instalments and royalty tax rebates. The previous practice of recording royalty tax rebates when instalments were received has been discontinued. For the 1981 and 1982 taxation years, this change has resulted in a reduction in reported royalty tax rebates and an offsetting reduction in recorded income tax instalments.
- 6) There are no comparative figures for political contribution deductions for earlier years since the plan only applies to the 1978 and subsequent taxation years.

3.3.10 The following summary shows how revenue increased for 1980-81 and the primary reasons for the more significant variations in revenue between the 1979-80 and the 1980-81 fiscal years:

	(Millions of Dollars)	
Total revenue for 1980-81	\$6,578	
Total revenue for 1979-80	5,668	
Total increase in revenue	\$ 910	
	Increase (Decrease)	%
Non-renewable resources royalties	\$ 642	70.6
— increase in crude oil, natural gas and natural gas by-products royalties caused by increased prices on which they are based, even though volumes declined slightly.		
— increase in oil sands royalties caused by Syncrude entering a royalty paying situation for the first time in 1980-81.		
Sales of petroleum and natural gas rights	(299)	(32.9)
— decrease caused by reduced demand for exploratory rights by the oil and gas industry because of uncertainties surrounding the Federal/Provincial oil pricing dispute.		
	343	37.7
Allocation to Alberta Heritage Savings Trust Fund	(95)	(10.4)
— increase in non-renewable resources revenue.		
	248	27.3
Individual income tax	165	18.1
— increase in both the number of individuals resident in Alberta and total reported taxable income.		
Corporation income tax	226	24.8
— a delay by the Government of Canada in processing 1978 tax returns resulted in a reduction in its estimate of instalment payments due to Alberta in the 1979-80 fiscal year and an increase in the 1980-81 fiscal year. In addition, instalments are received earlier since the Province began collecting its own corporation income taxes. Direct collection also resulted in reduced instalments to the Government of Canada to pay royalty tax rebates.		
Interest	103	11.3
— increase in funds available for investment		
Miscellaneous revenue	168	18.5
Total increase in revenue	\$ 910	100.0%

3.3.11 The following summary shows how expenditure increased for 1980-81 and the primary reasons for the more significant variations in expenditure-voted appropriations between the 1979-80 and 1980-81 fiscal years:

	(Millions of Dollars)	
Total expenditure for 1980-81	\$5,548	
Total expenditure for 1979-80	4,531	
Increase in expenditure-voted appropriation	\$1,017	
	Increase/ (Decrease)	%
Advanced Education and Manpower-Assistance to higher and further educational institutions	\$ 81	8.0
— 14.3% increase in operating grants to universities and public colleges, also, \$10 million and \$21 million increases in capital grants to universities and public colleges respectively.		
Agriculture-Production assistance	22	2.2
— \$16.4 million for a temporary "stop-loss" stabilization program for hogs.		
Culture-75th anniversary celebrations	(26)	(2.6)
— natural decrease in activities financed by this program. Most expenditures were in the 1979-80 fiscal year.		
Education-Financial assistance to schools	61	6.0
— large increase in contributions to the School Foundation Program Fund and increase in special assistance to school boards, per pupil grants and new programs.		
Energy and Natural Resources-Forest resources management	32	3.1
— costs of fighting the increased number of forest fires experienced during the year.		
Environment-Pollution prevention and control	62	6.1
— large increase in the number of applications from municipalities under the Sewage Treatment Grant program.		
Environment-Land conservation	83	8.1
— substantial land acquisitions for road and utility corridors in the Calgary and Edmonton restricted development areas.		
Environment-Water resources management	24	2.3
— increased activity relating to the construction of the Dickson Dam.		
Hospitals and Medical Care-Health care insurance	36	3.5
— increased grant to the Health Care Insurance Fund to cover rate increase for medical practitioners.		
Hospitals and Medical Care-Financial assistance for active care	128	12.6
— 23.6% increase in operating grants due to rising costs of operating active care hospitals.		
Hospitals and Medical Care-Financial assistance for capital construction	47	4.6



— increase due to change in method of funding capital projects. In 1980-81 capital projects were funded by grants, whereas in previous years they were funded by issuing debentures.		
Housing and Public Works-Planning and implementation of construction projects	22	2.2
— although activity on departmental projects decreased, expenditures for constructing multiple use facilities increased by \$38 million.		
Housing and Public Works-Policy development and financial assistance for housing	23	2.3
— \$22.6 increase in financial assistance grants for housing.		
Social Services and Community Health-Benefits and income support	41	4.0
— \$17 million increase in senior citizens' supplementary benefits (the maximum benefit increased effective July 1, 1980) and \$24 million increase in allowances to severely handicapped Albertans.		
Social Services and Community Health-Community social and health services	21	2.1
— 32.8% (\$12.5 million) increase in grants to local health units and city boards of health.		
Transportation-Construction and maintenance of highways.	79	7.8
— \$30 million increase for construction of secondary roads, forestry roads, bridges and reconstruction of improvement district roads, \$14 million increase for maintenance of primary and local highways and \$22 million increase for pavement rehabilitation.		
Transportation-Urban transportation financial assistance.	21	2.1
— \$9 million increase in public transit assistance, \$5 million increase in major continuous corridors and \$3.7 million for arterial roads.		
Utilities and Telephones-Utilities development	25	2.4
— a major project was undertaken to construct high pressure gas lines to feed co-op lines, also, the 40% rural electrification grant program was in operation for the first time.		
Utilities and Telephones-Natural gas price protection for Albertans	(46)	(4.5)
— decrease due to transfer of rebate payments to the Natural Gas Rebates Fund as at January 1, 1981.		
Miscellaneous	281	27.7
Total increase in expenditure-voted appropriations	<u>\$1,017</u>	<u>100.0%</u>

- 3.3.12 The following expenditures and liabilities were incurred during the 1980-81 fiscal year without specific legislative and executive authority. However, in accordance with section 32(4) of The Financial Administration Act, 1977, these amounts will be charged against the supply votes for the 1981-82 fiscal year.

	<u>Amount</u>
Advanced Education and Manpower — Vote 1 — Departmental Support Services	\$ 147,813
Attorney General — Vote 3 — Legal Services	20,467
Executive Council — Vote 2 — Occupational Health and Safety	79,391
Executive Council — Vote 4 — Support to Native Organizations	30,274
Government Services — Vote 3 — Government Transportation	59,909
Government Services — Vote 4 — Supply	11,631
Labour — Vote 4 — Industrial Relations Adjudication and Regulation	4,305
Municipal Affairs — Vote 7 — Co-ordination of Northeast Alberta Programs	1,934
Solicitor General — Vote 2 — Correctional Services	320,946
Solicitor General — Vote 4 — Motor Vehicle Registration and Driver Licencing	942,877
Tourism and Small Business — Vote 1 — Departmental Support Services	2,729
Transportation — Vote 2 — Construction and Maintenance of Highways	1,987,405
Treasury — Vote 5 — Public Debt Service	185,389
	<u>\$3,795,070</u>

#### 3.4 ALBERTA HERITAGE SAVINGS TRUST FUND

- 3.4.1 The audited financial statements of the Alberta Heritage Savings Trust Fund are included in Section 4 of Volume 1 of the Public Accounts of the Province of Alberta. The following is a comparative summary of the Statement of Income, Retained Earnings, Transfers and Fund Equity for the year ended March 31, 1981, contained therein:

	<u>1981</u>	<u>1980</u>
	<u>(Millions of Dollars)</u>	
Income and Retained Earnings:		
Investment income	\$ 725	\$ 344
Administrative expenses	<u>1</u>	<u>1</u>
Net income for the year	724	343
Retained earnings at beginning of year	<u>918</u>	<u>575</u>
Retained earnings at end of year	<u>1,642</u>	<u>918</u>
Transfers from the General Revenue Fund of the Province of Alberta:		
Non-renewable resource revenue transfer for the year	1,445	1,332
Cumulative transfers at beginning of year	<u>5,443</u>	<u>4,111</u>
Cumulative transfers at end of year	<u>6,888</u>	<u>5,443</u>
Fund equity at end of year	<u>\$8,530</u>	<u>\$6,361</u>
Represented by:		
Net assets	\$7,569	\$5,627
Deemed assets	<u>961</u>	<u>734</u>
	<u>\$8,530</u>	<u>\$6,361</u>

- 3.4.2 The following information relating to significant accounting policies and reporting practices is disclosed in the notes to the financial statements of the Alberta Heritage Savings Trust Fund. The impact of this information must be taken into account when considering the Fund Equity balance:

"Note 2 Summary of Significant Accounting Policies and Reporting Practices.

These financial statements have been prepared in accordance with generally accepted accounting principles, except for the following:

- (a) The investment in Alberta Energy Company Ltd. included in the Alberta Investment Division which represents 50% of the outstanding voting common shares of the company is valued at cost. Income is recognized only to the extent that dividends are received or receivable. The book value of the investment is not adjusted for the Fund's pro-rata share of retained earnings of the company.

The company reported earnings for the year ended December 31, 1980 of \$57,445,000 (1979 — \$27,422,000) and retained earnings at December 31, 1980 of \$119,357,000 (1979 — \$68,729,000). Dividend income received on this investment in the year ended March 31, 1981 amounted to \$3,408,000 (1980 — \$2,268,000).

- (b) Capital Projects Division investments represent the aggregate net amount expended from November 4, 1976 to March 31, 1981 under the authority of "Appropriations Acts" passed pursuant to Section 6(2)(a) of The Alberta Heritage Savings Trust Fund Act. The Capital Projects Division investments do not represent assets owned by the Alberta Heritage Savings Trust Fund. These investments are deemed to be assets of the Trust Fund with a value equal to the amounts expended, pursuant to section 6(5)(a) of The Alberta Heritage Savings Trust Fund Act."

- 3.4.3 In the consolidated financial statements of the Province of Alberta, the financial statements of the Alberta Heritage Savings Trust Fund are adjusted to a basis consistent with the accounting policies of the General Revenue Fund, which results in deemed assets being written off as expenditures.

- 3.4.4 The following summary compares the financial results of the Alberta Heritage Savings Trust Fund for the year ended March 31, 1981 with the estimates appearing in the Supplementary Information table in the 1980 Budget Address:

	Actual	Estimates	Over(under) Estimates	
	(Millions of Dollars)			%
Net income from investments	\$ 724	\$ 580	\$ 144	25
Non-renewable resource revenue transfer	1,445	1,720	(275)	(16)
Total	<u>\$2,169</u>	<u>\$2,300</u>	<u>\$ (131)</u>	(6)

Appropriations for Capital Projects Division were approved for the 1980-81 fiscal year in the amount of \$319 million. Expenditures on Capital Projects Division investments during the year aggregated \$227 million leaving an unexpended balance of the funds appropriated in the amount of \$92 million.

- 3.4.5 The following is a reconciliation of the allocation to the Alberta Heritage Savings Trust Fund deducted from General Revenue Fund revenue, with the transfer reported by the Trust Fund for the years ended March 31, 1981 and 1980:

	1981	1980
	(Millions of Dollars)	
Allocation to Trust Fund deducted from General Revenue Fund revenue:		
Amount transferred	\$1,348.7	\$1,250.7
Amount to be transferred	94.0	96.8
	<u>1,442.7</u>	<u>1,347.5</u>



Adjustment to reconcile the accrual basis of accounting used by the General Revenue Fund with the cash received basis used by the Alberta Heritage Savings Trust Fund:		
Adjustment at beginning of year	96.8	81.7
Adjustment at end of year	(94.0)	(96.8)
Transfer to be reported by the Trust Fund	<u>1,445.5</u>	<u>1,332.4</u>
Amendments for prior period adjustment (a)		
1981	(.2)	.2
1980	<u>—</u>	<u>(0.7)</u>
Transfer reported by Alberta Heritage Savings Trust Fund	<u>\$1,445.3</u>	<u>\$1,331.9</u>

- (a) These adjustments were made pursuant to section 5(6) of the Act on the finalization of the 1979-80 and 1978-79 Public Accounts, so that the amount of non-renewable resources revenue in the Alberta Heritage Savings Trust Fund for the years ended March 31, 1981 and 1980 become equal to 30% of the non-renewable resources revenue received in those years.

#### 4. WORK OF THE AUDIT OFFICE

##### 4.1 THE AUDITOR GENERAL AS AUDITOR

- 4.1.1 Section 12(a) of The Auditor General Act appoints the Auditor General auditor of every department, regulated fund, revolving fund and Provincial agency.

Section 12(b) of The Auditor General Act enables the Auditor General, with the approval of the Select Standing Committee on Legislative Offices, to be appointed auditor of a Crown-controlled organization or any other organization or body.

In the following paragraphs, the various entities audited by the Audit Office and its agents are listed indicating the legislative authority for the Auditor General's appointment.

- 4.1.2 The Public Accounts for the fiscal year ended March 31, 1981 contain the audited consolidated financial statements of the Province of Alberta, the audited financial statements of the General Revenue Fund and the audited financial statements of the following Provincial agencies, revolving funds and regulated funds. The Auditor General is appointed auditor of these entities pursuant to section 12(a) of The Auditor General Act:

Advanced Education and Manpower:  
Students Finance Board

Agriculture:  
Agricultural Research Council of Alberta  
Alberta Agricultural Development Corporation  
Alberta Agricultural Research Trust  
Alberta Hail and Crop Insurance Corporation  
Irrigation Land Manager  
The Horned Cattle Purchases Act Trust Account  
Wheat Board Money Trust Account

Attorney General:  
Public Trustee  
The Alberta General Insurance Company

Culture:  
Culture Revolving Fund  
Glenbow-Alberta Institute  
The Alberta Art Foundation  
The Alberta Cultural Heritage Foundation  
The Alberta Foundation for the Performing Arts  
The Alberta Historical Resources Foundation  
The Government House Foundation

Economic Development:  
Alberta Terminals Ltd.

Education:  
School Book Branch  
School Foundation Program Fund  
Teachers' Retirement Fund  
The Alberta Educational Communications Corporation

Energy and Natural Resources:  
Alberta Oil Sands Technology and Research Authority  
Alberta Petroleum Marketing Commission  
Forest Development Research Trust Fund  
Natural Gas Price Administration Act Fund  
Natural Gas Pricing Agreement Act Fund

Environment:

- Alberta Environmental Research Trust
- Environment Council of Alberta
- Surface Reclamation Fund
- Water Resources Revolving Fund

Executive Council:

- Energy Resources Conservation Board
- The Research Council of Alberta
- The Workers' Compensation Board

Government Services:

- Government Services Revolving Fund

Hospitals and Medical Care:

- Edmonton Area Hospital Planning Council Fund
- Health Care Insurance Fund

Housing and Public Works:

- Alberta Home Mortgage Corporation
- Alberta Housing Corporation

Municipal Affairs:

- Alberta Planning Fund
- Improvement Districts' Trust Account
- Metis Settlements Trust Fund
- Special Areas Board

Recreation and Parks:

- Alberta Games Council
- Recreation and Parks Revolving Fund
- The Recreation, Parks and Wildlife Foundation

Social Services and Community Health:

- The Alberta Alcoholism and Drug Abuse Commission

Solicitor General:

- Alberta Liquor Control Board
- Alberta Racing Commission
- Motor Vehicles Accident Claims Fund

Tourism and Small Business:

- Alberta Opportunity Company

Transportation:

- Alberta Resources Railway Corporation
- Transportation Revolving Fund

Treasury:

- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Savings Trust Fund
- Alberta Municipal Financing Corporation
- Consolidated Cash Investment Trust Fund
- General Trust Account
- Land Purchase Fund
- Pension Fund
- Retirement Annuities Fund
- Treasury Branches Deposits Fund

Utilities and Telephones:

- Gas Alberta Operating Fund
- The Alberta Government Telephones Commission
- The Alberta Government Telephones Employees' Pension and Death Benefit Fund



In the opinion of the Auditor General, inclusion of the above audited financial statements in the Public Accounts of the Province satisfies the reporting requirements of section 77 of The Financial Administration Act, 1977.

- 4.1.3 Section 2(5) of The Financial Administration Act, 1977 exempts most of the Act's application to the following entities. Accordingly, the audited financial statements of these entities are not included in the Public Accounts of the Province. The Auditor General is appointed auditor of these entities, which are primarily the provincially owned universities, colleges, hospitals and related funds, pursuant to section 12(a) of The Auditor General Act:

Advanced Education and Manpower:

Academic Pension Plan Fund of the University of Alberta

Colleges:

Grande Prairie Regional College  
Grant MacEwan Community College  
Fairview College  
Keyano College  
Lakeland College  
Lethbridge Community College  
Medicine Hat College  
Mount Royal College  
Olds College  
Red Deer College

The Banff Centre for Continuing Education

Universities:

Athabasca University  
The University of Alberta  
The University of Calgary  
The University of Lethbridge  
University of Alberta — Chembiomed Ltd.

Hospitals and Medical Care:

Alberta Heritage Foundation for Medical Research  
Edmonton Radiopharmaceutical Centre

Hospitals:

Alberta Children's Provincial General Hospital  
Foothills Provincial General Hospital  
Glenrose Provincial General Hospital  
Provincial Cancer Hospitals  
University of Alberta Hospitals

Although the audited financial statements of these entities are not included in the Public Accounts, section 2 (5.1) of The Financial Administration Act, 1977 requires the Ministers responsible for the administration of the statutes under which they operate to lay a copy of these financial statements before the Legislative Assembly (except for the financial statements of the Alberta Heritage Foundation for Medical Research). Furthermore, the Provincial Treasurer has undertaken, as a convenience to regular users of the Public Accounts, to request that the appropriate minister make available sufficient copies of the financial statements to enable them to be sent to all persons requesting them. In this manner, an appropriate degree of accountability is achieved.

- 4.1.4 The financial statements of the following entities have also been audited by the Auditor General pursuant to his appointment under section 12(a) of The Auditor General Act and are not reproduced in the Public Accounts of the Province:

Advanced Education and Manpower:

Provincial Laboratory of Public Health  
The Arctic Institute of North America

Agriculture:

Lambco, a division of Alberta Agricultural Development Corporation

Culture:

Glenbow Foundation  
Luxton Museum, a department of Glenbow-Alberta Institute  
Luxton Museum Ltd.

Education:

Northland School Division No. 61

In most cases, the information contained in the above financial statements is also contained in other financial statements included in either the Public Accounts or in the audited financial statements of entities exempted from inclusion in Public Accounts by section 2(5) of The Financial Administration Act, 1977 (See sub-section 4.1.3 of this report).

- 4.1.5 Pursuant to the provisions of section 12(b) of The Auditor General Act, the Select Standing Committee on Legislative Offices approved the Auditor General's appointment as auditor of the following entities:

Alberta Helium Limited  
Canadian Energy Research Institute  
Canadian Corporation for Studies in Religion  
Canadian Institute of Resources Law  
Coal Mining Research Centre  
Computer Modelling Group  
Foothills Hospital Employees' Charity Fund  
Foothills Hospital Foundation  
Glenrose Provincial General Hospital Staff Benevolent Fund  
Glenrose Provincial General Hospital Staff Charities Fund  
Hydrocarbon Research Centre  
New Western Film & Television Foundation  
Petroleum Recovery Institute  
Sulphur Development Institute of Canada (SUDIC)  
The Canadian Association of Youth Orchestras  
The University of Alberta Foundation  
University Hospitals Foundation  
University of Alberta Hospitals Employees' Benevolent Fund  
University of Alberta Hospitals Employees' Charity Trust

The Auditor General acted as auditor of the above entities at the request of management. Since in these instances there is no direct accountability to the Legislative Assembly, it is not considered appropriate to reproduce the audited financial statements in this report; nor are they included in the Public Accounts of the Province.

- 4.1.6 In addition to the entities covered by section 12 of The Auditor General Act, the Auditor General is also auditor of fourteen irrigation districts operating under the authority of The Irrigation Act, Chapter 192, Revised Statutes of Alberta 1970. These irrigation districts are not provincially owned but receive cost-sharing funding for capital improvements from the Province of Alberta, particularly from the Alberta Heritage Savings Trust Fund. The Auditor General is appointed auditor of these districts under section 43 of The Irrigation Act. The irrigation districts concerned are as follows:

Aetna Irrigation District  
Bow River Irrigation District  
Eastern Irrigation District  
Leavitt Irrigation District  
Lethbridge Northern Irrigation District  
Macleod Irrigation District  
Magrath Irrigation District  
Mountain View Irrigation District  
Raymond Irrigation District  
Ross Creek Irrigation District  
St. Mary River Irrigation District

Taber Irrigation District  
United Irrigation District  
Western Irrigation District

These irrigation districts are independently incorporated with no direct accountability to the Legislative Assembly. Accordingly the Auditor General has exercised his discretionary powers pursuant to sub-section 19(3)(b) of The Auditor General Act and not deemed it appropriate to include the audited financial statements in this report; nor are they included in the Public Accounts of the Province.

- 4.1.7 Under the terms of the Alberta Crown Agreement, the Auditor General, acting on behalf of the Minister of Energy and Natural Resources, has the right to post-audit, on a continuing basis, the books and records of the Syncrude Project. The purpose of this monitoring activity is to give assurance that there has been compliance with the Alberta Crown Agreement and related accounting manual and to verify the determination of the deemed net profit or loss of the Project, thereby establishing the quantity of synthetic crude oil and other leased substances which may be taken by the Province of Alberta as royalty. This right is currently being exercised by the Office of the Auditor General pending transfer of this function to the Department of Energy and Natural Resources in due course.

The financial statements of Syncrude Canada Ltd., which operates the Syncrude Project, are audited by a private sector firm of chartered accountants.

- 4.1.8 The Government of Alberta has issued a licence to a partnership consisting of the Edmonton Exhibition Association Limited and the Calgary Exhibition and Stampede Limited. The partnership manages the Western Express Lottery in Alberta for the Western Canada Lottery Foundation as the agent of the Government of Alberta.

It is unclear whether or not the monies collected by the partnership on behalf of the Western Canada Lottery constitute a regulated fund. If these monies are a regulated fund, the Auditor General is its auditor pursuant to section 12(a) of The Auditor General Act. However, the financial affairs of the Western Canada Lottery were audited by a private sector firm of chartered accountants and its financial statements were not included in the Public Accounts of the Province.

An independent legal opinion obtained by the Auditor General and a legal opinion obtained by the Government, in an effort to resolve the status of the Western Canada Lottery, were in conflict with each other. Accordingly, the Auditor General's reports to the Legislative Assembly for the 1978-79 and 1979-80 fiscal years recommended that consideration be given to classifying as a regulated fund, the money collected and held by the partnership which manages the Western Canada Lottery in Alberta, or alternatively, requiring that money collected be subject to audit by the Auditor General as a condition of the licence.

The Provincial Treasurer responded to this recommendation in a report to the Select Standing Committee on Public Accounts in October 1981. That response stated that the Western Canada Lottery, Alberta Division has been directed by the Minister of Culture to make its books and records available to the Auditor General and the Provincial Treasurer for audit to determine compliance with the conditions of the licences. It is also stated that a statement of lottery revenues and their distribution will be presented in the Public Accounts.

In view of this response, and since assurances have been received that the Auditor General's right of audit will, in future years, be a condition of the licence, the recommendation is not repeated in this report.

- 4.1.9 Crown-controlled organizations are defined by sub-section 1(1)(b) of The Auditor General Act. Essentially, these companies qualify to be so designated because the Province of Alberta owns more than 50% but less than 100% of the issued voting shares. Crown-controlled organizations existing during the 1980-81 fiscal year were as follows:

Alberta Helium Limited  
Pacific Western Airlines Ltd.  
Westech Systems Ltd.



As explained in sub-section 4.1.5 of this report, the Auditor General has been appointed auditor of Alberta Helium Limited. The financial statements of the other two Crown-controlled organizations are audited by private sector firms of chartered accountants and the involvement of the Auditor General for the 1980-81 fiscal year was limited to the review function described in section 16(1) of The Auditor General Act. Since the information obtained during these reviews was deemed to be satisfactory, the Auditor General did not consider it necessary to exercise his powers under section 16(2) of the Act.

- 4.1.10 The financial statements of the Alberta Energy Company, which is only 50% owned by the Province of Alberta and therefore not a Crown-controlled organization, are neither audited by the Auditor General nor subject to section 16 of The Auditor General Act.

## 4.2 REPORTING RESPONSIBILITIES

- 4.2.1 The Auditor General is required to report to the Legislative Assembly, as appropriate, under sections 18, 19 and 20 of The Auditor General Act. Reports issued under sections 18 and 19 of the Act are annual reports, while reports under section 20 are issued at the discretion of the Auditor General. Reports may also be issued resulting from requests received by the Auditor General pursuant to section 17 of the Act.

- 4.2.2 In a report issued under section 18 of the Act, the Auditor General is required to state whether or not, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and as to whether they are on a basis consistent with that of the preceding fiscal year.

The report for the fiscal year ended March 31, 1981 was dated December 29, 1981 and is reproduced in sub-section 3.1.1 of this report.

- 4.2.3 In a report issued under section 19 of the Act (this report), the Auditor General is required to report to the Legislative Assembly on the work of his office, and various other matters specified in the Act where they have been observed during the course of that work. However, there is no limitation on what may be included in this report since the Act states that the Auditor General shall call attention to any case that he considers should be brought to the notice of the Assembly.

- 4.2.4 In a report issued under section 20 of the Act, the Auditor General may report to the Legislative Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until presentation of his annual report issued under section 19 of the Act. In essence, a report under section 20 is an emergency report.

No reports were issued, or are in contemplation, under section 20 of the Act in respect of the fiscal year ended March 31, 1981. However, in a letter dated December 3, 1981, the President of the Executive Council requested the Auditor General to prepare a report on certain matters relating to the Alberta Heritage Savings Trust Fund. Parts of that report are included in sub-section 1.2 of this report.

- 4.2.5 Annual reports under section 18 of The Auditor General Act are annexed to and form part of the Public Accounts of the Province and accordingly, are tabled in the Legislative Assembly by the Provincial Treasurer. Reports under sections 19 and 20 are required to be presented to the Chairman of the Select Standing Committee on Legislative Offices. He in turn tables them in the Legislative Assembly. Section 21 of the Act, however, establishes an Audit Committee which reviews reports under sections 19 and 20 of the Act before they are presented to the Chairman of the Select Standing Committee. Order in Council 747/79 dated August 1, 1979 appointed the members of the first Audit Committee which comprises:

Mr. Haughton G. Thomson, F.C.A.  
Retired Partner  
Deloitte Haskins & Sells, Chartered Accountants  
Edmonton

Mr. Robert Colborne,  
President  
Pacific Western Transportation Limited  
Calgary

His Honour Clare L. Liden,  
Assistant Chief Judge  
Provincial Court of Alberta

Mr. Robert A. McLaughlin  
Systems Analyst  
Imperial Oil Limited  
Edmonton

Mr. John M. Rooney, F.C.A.  
Executive Partner  
Clarkson Gordon, Chartered Accountants  
Calgary

Honourable Louis D. Hyndman, Q.C.  
Provincial Treasurer of Alberta

The Auditor General acknowledges the helpful and constructive contributions of the Audit Committee during the review stages of the annual report for the 1980-81 fiscal year.

#### 4.3 AUDIT ACTIVITIES AND RESPONSIBILITIES

##### Role of the Legislative Auditor

- 4.3.1 Accountability has been described as a fundamental prerequisite to preventing the abuse of power in a democratic system of government. As such, the importance of accountability cannot be over emphasized. The function of a legislative auditor is to report on the government's stewardship of public funds and resources, thereby it helps to ensure the fidelity of the accountability process.
- 4.3.2 The role of a legislative auditor is best illustrated by describing how that role complements and impacts upon the accountability process. The government presents its annual revenue and expenditure budgets (estimates) for debate in the Legislative Assembly. Once the estimates are formally approved by the Legislature, the government and its administrators are responsible for their implementation. In this regard, the Legislature delegates authority to the government to ensure that collections of public funds are effected in accordance with the various statutes of the Legislature, that public funds are disbursed for the purposes for which they were authorized, that resources are managed in an economic and efficient manner and that, where appropriate, the effectiveness of government programs is measured.
- Together with this authority, however, goes a responsibility for reporting back to the Legislature on how the public funds and resources were ultimately administered. This reporting process is termed accountability and is the basic method used by the Legislature to control the public purse.
- 4.3.3 Most accountability information provided to the Legislature is prepared by the government and its administrators and tabled in the Legislative Assembly. In Alberta, it is the responsibility of the Auditor General to examine and express an independent and objective opinion on appropriate parts of that accountability information.

The principle accountability information of a financial nature tabled in the Legislative Assembly is the annual Public Accounts of the Province. These are prepared by the Treasury Department and tabled by the Provincial Treasurer. Each set of financial statements contained in the Public Accounts includes a statement by the Auditor General as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the entity concerned, in accordance with the disclosed accounting principles and whether they are presented on a basis consistent with that of the preceding fiscal year. Because of his independent status and his position as an officer of the Legislature,



the Auditor General's opinions provide the necessary credibility to the accountability information contained in the Public Accounts.

- 4.3.4 Accountability information is also subject to scrutiny by the Select Standing Committee on Public Accounts. This all-party committee acts on behalf of the members of the Legislature in conducting an in-depth examination of the government's management and control of public resources. Here again, the Auditor General impacts the accountability process by the issuance of an annual report (this report) which may be used as a guide by the Select Standing Committee in its review of the Public Accounts and the activities of individual departments, Provincial agencies and regulated and revolving funds.
- 4.3.5 Another form of accountability information is the annual reports tabled in the Legislative Assembly by most departments and many funds and agencies. Typically these reports contain information relating to the programs administered, services provided and results achieved by the department, fund or agency. It is the practice of the Audit Office to review the information contained in these reports prior to their being tabled, in particular to help ensure the fairness of presentation of any financial information contained therein.

#### Auditing Standards

- 4.3.6 The Auditor General Act prescribes the reporting responsibilities of the Auditor General. It also describes certain administrative duties and procedures. However, the Act does not prescribe how the Auditor General or his Office should function, or what auditing standards should be adhered to in discharging his reporting responsibilities.
- 4.3.7 In the opinion of the Auditor General, the nature of his appointment and the spirit of the Act place upon him an implicit responsibility to ensure that, as a minimum, the work of the Audit Office adheres to the contemporary auditing standards and methodologies that are used by private sector chartered accountants.
- 4.3.8 The Canadian Institute of Chartered Accountants (CICA) develops and promulgates recommendations which constitute "generally accepted auditing standards". These standards, which are published in the CICA Handbook, are binding on chartered accountants engaged in auditing the financial statements of profit oriented enterprises. Although government institutions do not fall within the definition of profit oriented enterprises, generally accepted auditing standards are adhered to by the Audit Office in the performance of its duties.

Section 15 of The Auditor General Act entitles the Auditor General at all reasonable times, to the information, reports, records, explanations and access to electronic data processing equipment he deems appropriate in the circumstances. Thereby it provides for the acquisition of such sufficient appropriate audit evidence which is, in the Auditor General's opinion, necessary to afford a reasonable basis to support the contents of his reports.

- 4.3.9 Since it is generally acknowledged that many people have an incomplete understanding of what constitutes an audit for the purposes of expressing an opinion on financial statements (a financial audit), it is considered appropriate to elaborate at this juncture on certain limitations in the auditing process.

It is accepted that in an examination made in accordance with generally accepted auditing standards, an auditor fulfills his professional responsibility by complying with those standards. When conducting an audit in accordance with generally accepted auditing standards, a financial auditor seeks reasonable assurance that fraud and error, which may be material to the financial statements or other accountability information, have not occurred or that, if they have occurred, they are corrected and appropriately reported. When planning his examination, the auditor has the responsibility, within the inherent limitations of the auditing process, to consider the risk of fraud and error and to be alert for circumstances which might cause him to suspect their existence. If his suspicions are aroused at any time, the auditor must perform additional procedures to confirm or dispel those suspicions. Beyond that, the auditor has no separate or additional responsibility to detect fraud and error.

Accordingly, it must be realized that an audit performed in compliance with generally accepted auditing standards may not detect, and is not primarily designed to detect, every instance of fraud or error. The inherent limitations in the audit process are virtually unavoidable. An



auditor would not have the resources to examine the circumstances behind and the support for every transaction recorded. Even if he had, he could not be sure that there were no unrecorded transactions. Furthermore, collusion between auditee personnel and outside parties, or among management or employees could result in apparently genuine but falsified transactions and documents being accepted by the auditor.

#### Accounting Principles

- 4.3.10 Financial statements may not be meaningful unless people who use them are aware of the accounting principles and disclosure standards employed in their preparation. Extensive and ongoing research by the CICA has resulted in the establishment of “generally accepted accounting principles”. These principles are promulgated in the CICA Handbook as the recording and disclosure standards to be used by profit oriented enterprises.

Despite the surpluses recorded by the Province of Alberta in recent years, government entities are not profit oriented enterprises in the CICA context.

- 4.3.11 In 1980, the CICA published a research study entitled Financial Reporting by Governments. This document was the result of a five year study to catalogue existing legislative accounting and reporting policies in Canada and to review the underlying objectives and concepts. The Auditor General was a member of the Study Group which produced the research study and the Assistant Auditor General (Resources and Administration Division) also served on one of the Group’s task forces.

The research study concluded that it was unrealistic to attempt to prescribe a single set of reporting standards that all governments should adopt. Nevertheless, it encouraged greater standardization of financial reporting practices in the public sector. However, the situation remains that generally accepted accounting principles for governments do not exist, though in September 1981, the newly organized Public Sector Accounting and Auditing Committee of the CICA began addressing the various issues involved. Notwithstanding the above, in the interests of fair and consistent presentation, financial statements submitted to the Legislative Assembly are prepared either in accordance with generally accepted accounting principles, or alternatively, in accordance with an appropriate disclosed basis of accounting.

- 4.3.12 For some government entities, deviations from generally accepted accounting principles are unavoidable. This is logical since what is appropriate to a profit oriented enterprise may not be appropriate to a government entity. In these situations, an alternative basis of accounting is adopted and explained.

When an appropriate disclosed basis of accounting is used, each departure from generally accepted accounting principles is included in a note to the financial statements of the entity concerned headed “Significant Accounting Policies and Reporting Practices”. This note states that the financial statements are prepared in accordance with generally accepted accounting principles with certain exceptions. The accounting policies or practices employed which give rise to these exceptions are then explained in the note.

- 4.3.13 This form of presentation has been adopted for all financial statements other than those of the Province of Alberta Consolidated and the General Revenue Fund where the exceptions to generally accepted accounting principles were so numerous and significant that it was considered appropriate to omit reference to generally accepted accounting principles. Nevertheless the notes to the Province of Alberta Consolidated and General Revenue Fund financial statements headed “Significant Accounting Policies and Reporting Practices” explain the bases of accounting used.

In employing generally accepted auditing standards the Audit Office exercises professional judgement in determining the suitability of employing accounting policies and practices at variance with generally accepted accounting principles. In all financial statements prepared as at March 31, 1981, or such other accounting periods ended within the year ended March 31, 1981, the disclosed departures from generally accepted accounting principles are not considered by the Audit Office to be inappropriate in the circumstances. However, the reader’s attention is drawn to the recommendations contained in sub-section 2.4 of this report relating to certain accounting policies of general application.

### Expanded Auditing Mandate

- 4.3.14 Generally accepted auditing standards are primarily applicable to what are often referred to as financial or attest audits. The main objective of an attest audit is the expression of an auditor's opinion on the financial statements of the entity being audited. Basically, that opinion is restricted to commenting upon whether the financial statements present fairly the financial position, results of operations and changes in financial position of the entity, in accordance with an appropriate disclosed basis of accounting consistent with previous years.

Comparing the above with the reporting mandate contained in The Auditor General Act reveals that conducting an attest audit will enable the Auditor General to discharge his reporting responsibilities under section 18 of the Act. Furthermore, an attest audit will provide much of the audit evidence needed to report under sub-sections 19(2)(a), (b) and (c) of The Auditor General Act.

However, an attest audit will not involve the scope of audit work necessary to satisfy all the reporting requirements of sub-sections 19(2)(d) and (e) of the Act. This is because an attest auditor is not required to evaluate a system of internal control unless he intends to rely on that system when determining the nature, extent and timing of other auditing procedures.

- 4.3.15 Subsections 19(2)(d) and (e) of The Auditor General Act empower the Auditor General to report on instances where it has been observed that accounting systems and management control systems, including those systems designed to ensure economy and efficiency in the utilization of resources, were not in existence, were inadequate or had not been complied with. Similarly, they enable the Auditor General to report on instances where it has been observed that where appropriate and reasonable systems could have been used to measure and report on the effectiveness of programs, such procedures were not established or were not being complied with.
- 4.3.16 Because of the existence of sub-sections 19(2)(d) and (e) of the Act, special arrangements are made to cover those aspects not encompassed by normal attest auditing activity. These aspects are covered in three ways as follows:

1. Annual attest audits are augmented by subjecting all significant accounting systems to preliminary evaluation procedures. It should be noted that such procedures are not capable of detecting non-compliance with the system. This is done even though the controls in the systems may not be relied upon in determining the nature, extent and timing of other auditing procedures. Performing a preliminary evaluation and weakness investigation enables the Auditor General to report design deficiencies in accounting systems to management on a timely basis and, if appropriate, to include them in his report to the Legislative Assembly under sub-section 19(2)(d) of the Act.

Significant accounting systems not fully compliance tested each year are compliance tested and evaluated on a rotational basis.

2. Management control systems (MCS) audits are performed utilizing the Auditor General's mandate relating to economy, efficiency and effectiveness. This type of audit activity is relatively new as the Audit Office did not have a mandate to do it until The Auditor General Act came into effect on April 1, 1978.

MCS auditing is discussed in more detail in sub-sections 4.3.19 to 4.3.25 of this report.

3. Special audit projects are conducted to examine accounting or management control systems not covered conveniently or adequately by normal attest audits or 1 or 2 above. Typically these are management control systems not deemed to warrant the full MCS audit process, or, accounting systems of wide spread application which are more effectively audited on a cross government basis.

### Audit Extent and Timing

- 4.3.17 It is believed that first priority must be given to annual attest audits of the General Revenue Fund, Provincial agencies and revolving and regulated funds. This is because collectively the financial statements of these entities comprise the Public Accounts of the Province, which are



the principal financial accountability information tabled in the Legislative Assembly. Furthermore, section 18 of the Act indicates clearly that these audits must be performed each year.

For the purposes of section 19 of the Act, all significant accounting systems are subjected to preliminary evaluation techniques and weakness evaluations. However, the Audit Office does not examine each year every area, circumstance or system which conceivably could give rise to an observation reportable under section 19 of The Auditor General Act.

- 4.3.18 In discharging its responsibilities, the Audit Office has adopted policies and methodologies which emphasize the prevention of errors and irregularities, rather than attempting to be purely detective. This is because the Auditor General believes that the early diagnosis and correction of weaknesses and deficiencies in accounting and management control systems will minimize the potential for losses and waste of public monies and resources.

It is recognized, however, that no systems are infallible. Accordingly, efforts are made to develop audit methodologies which facilitate the early detection of any major errors or irregularities which might occur. For example, it is believed that normal post-auditing methods are not acceptable for major departmental expenditure systems. This is because any errors and irregularities may not be found and corrected until a considerable time after they occurred. In view of the substantial amounts of funds being processed by these systems, uncorrected irregularities very quickly could reach serious proportions.

It was to counter problems of this kind that the Audit Office developed, and is continuing to refine, a methodology which it has designated "concurrent auditing". Concurrent auditing involves the subjection to audit examination of sample transactions on an ongoing and "immediately after the fact" basis. It thereby optimizes the opportunity for early detection of errors and irregularities in transactions and their related processing systems which otherwise may not be discovered until well after any resultant losses have occurred.

#### 4.3.19 Management Control Systems (MCS) Auditing

As already stated, the Auditor General has a responsibility, under sub-sections 19(2)(d) and (e) of the Act, to audit management control systems. Before discussing how this responsibility has been addressed, it is important to understand the rationale for management control systems audits.

In profit oriented organizations, decisions made by management are intended to increase (or at least maintain) profits and the percentage return on capital employed. In the private sector, a crude indication of the extent to which success has been achieved is provided by the financial statements.

By contrast, in the public sector decisions made by management are intended to result in the provision of appropriate levels of service, and success is measured primarily by the cost, efficiency and effectiveness of the services provided.

- 4.3.20 The Auditor General is responsible for auditing the management control systems used by public service managers to ensure economy and efficiency and to measure and report on program effectiveness. The Auditor General has no responsibility for commenting under sub-sections 19(2) (d) and (e) of the Act, and therefore does not comment, on the efficiency, economy or effectiveness of departments or Provincial agencies.

Systems to be subjected to MCS auditing are selected by the Management Committee of the Audit Office. This selection process is necessary because The Auditor General Act does not direct the Auditor General to conduct an annual audit on all systems. The main factor influencing selection relates to a prime objective of the audit, which is to encourage management to affect change where such change is perceived to be necessary; as such, MCS audits are selected on the basis of the perceived potential requirement for management control systems.

Examples of other selection criteria would include the materiality of resources used by an organization (e.g. a significant proportion of government manpower) or the cross-government impact of the systems to be audited. Selection criteria applied will vary from year to year depending upon prevailing circumstances.



Once an organization or part of an organization is selected as a candidate for an MCS audit, an audit scope document is prepared, for discussion with senior auditee management, which defines the systems to be audited.

- 4.3.21 The objectives of an organization and the strategy adopted to achieve those objectives give rise to a number of issues to be addressed by management. Although many organizations will have common issues, the mix of issues in any one organization and their relative impact on its success will be unique to that organization. In any particular organization, certain issues are more critical to success than others.

Since the purpose of the audit is to assist management, the audit scope should have regard to the issues that management believes to be important. Therefore, to the extent that the auditor can, without compromising independence, logically accept the arguments of management in favour of or against an issue being classified as a critical issue, the auditor should be guided by management.

- 4.3.22 Critical issues are the focus of an MCS audit and are defined in the audit scope document for discussion with auditee senior management prior to the audit commencing. Having identified the critical issues, and therefore the focus of the audit, the final step in defining the audit scope is to determine how management information and control systems can assist management in the control of those issues. The systems to be audited are those designed to assist management in making decisions to control the issues (ie. those matters critical to success). As a variety of systems might satisfy one particular purpose, it would be wrong for the auditor to specify any particular system as being needed. Systems needs are identified, therefore, in the audit scope document by reference to the types of information required by management. In the context of the MCS audit, the Audit Office refers to these outputs as 'systems criteria'. Previous comments concerning identification of critical issues are equally applicable to the determination of systems criteria, in that it is necessary for the auditor to have regard to management's view.

Once the audit scope is defined and agreed with management, the auditor should next establish whether adequate systems exist to provide the expected systems criteria and whether such systems are being complied with. This involves interviewing managers and documenting and testing systems.

- 4.3.23 It is also important for the auditor to determine whether the effects and potential effects of detected systems deficiencies justify remedial action. Although the effects need not always be quantified, it is important for the auditor to apply judgement to determine which systems deficiencies clearly require correction and which warrant further weakness investigations prior to a definite conclusion being drawn.

As an MCS audit is systems orientated, it follows that it does not have to relate to a specific period of time or to financial statements. The audit is not designed to attest to historical events so there is little value in relating it to the past; management is concerned with the implementation and functioning of systems in the future.

- 4.3.24 As already stated, the objective of an MCS audit is to encourage management to effect change where such change is perceived to be necessary. The audit approach and reporting philosophy of the Audit Office is designed to support this objective.

Each report of the Auditor General to the Legislative Assembly will discuss which audits have been undertaken and their current status. Specifically, these reports will identify under sub-sections 19(2)(d) and (e) of The Auditor General Act deficiencies observed in management control systems where:

1. Management agrees with the audit findings and recommendations but is unwilling to implement appropriate systems.
2. Management does not agree with the audit findings and recommendations, and in the opinion of the Auditor General the matter warrants the attention of the Legislative Assembly.
3. Follow-up audits have shown that management is making unsatisfactory progress in implementing or has not implemented the systems that management agreed to develop. It

is important to recognize that some recommendations resulting from an MCS audit will require a considerable period of time to implement. In such a case it is intended that periodic follow up audits will be conducted to monitor the progress made.

#### Status of Management Control Systems (MCS) Auditing:

- 4.3.25 During the past year, the Management Committee of the Audit Office created an MCS Audit section within the Systems Audit Division.

The MCS Audit section is, in part, responsible for:

- a) developing and formalizing audit policy and procedures to be adopted by the Audit Office for MCS audits;
- b) assisting other audit divisions of the Office in the conduct of MCS audits.

The section is in the process of finalizing its initial work on audit policy and procedures for MCS auditing and is currently conducting two MCS audits to ensure that the policies and procedures developed are relevant, practical and capable of satisfying the objectives of MCS auditing.

#### 4.4 ORGANIZATION OF THE AUDIT OFFICE

- 4.4.1 In order to facilitate the achievement of its responsibilities and objectives, the Audit Office is divided into four operating divisions:

- (1) General Audit Division
- (2) Departmental Audit Division
- (3) Systems Audit Division
- (4) Resources and Administration Division

Each division is headed by an Assistant Auditor General, who, together with the Auditor General, collectively comprise the Audit Office Management Committee.

- 4.4.2 The General Audit Division is primarily responsible for audits of all Provincial agencies, regulated funds, revolving funds and other organizations of which the Auditor General is auditor either by virtue of being appointed under other statutes, or as authorized under sub-section 12(b) of The Auditor General Act.

The main function of this division is the performance of annual audits culminating in the expression of an auditor's opinion on financial statements which have been prepared in accordance with generally accepted accounting principles or other disclosed basis of accounting. The division is also responsible for audits designed to compliance test and report on significant accounting and management control systems, including those relating to economy, efficiency and effectiveness, administered by the entities referred to in the previous paragraph.

During the year, the Assistant Auditor General (General Audit Division) served as a member of the Auditing Standards Committee of the CICA.

- 4.4.3 The Departmental Audit Division is primarily responsible for audits of all Government departments, monitoring the disbursement control function of the Office of the Controller and obtaining sufficient appropriate audit evidence to support the Auditor General's reports on the financial statements of the Province and the General Revenue Fund. Audit approaches employed are dependent upon the size and complexity of the individual departments but typically involve a combination of concurrent and post-auditing techniques.

The division is also responsible for audits designed to compliance test and report on significant accounting and management control systems, including those relating to economy, efficiency and effectiveness, administered by Government departments.

The division has developed a simulation system to operate on the Audit Office's own computer. This system is designed to simulate certain elements of the Government's main expenditure system by processing all transactions through the Audit Office's system and comparing the simulated results obtained with output from the Government's system. This

significantly enhances the audit of the main expenditure system by providing early warning when changes which affect output of audit significance have occurred in that system. Subsequent investigation of differences will reveal whether a change was due to:

- a systems error in the main or Audit Office system.
- an authorized or unauthorized change in the main system.
- an operational error.

Monitoring system's changes and comparing the system's output in the manner described above provides audit assurance that the system is operating properly, or otherwise, on an ongoing basis. This activity also enables the Audit Office to provide similar assurances, or otherwise, to the Office of the Controller.

4.4.4 The Systems Audit Division is divided into three separate sections:

- Systems Development
- EDP Attest Audit
- Management Control Systems (MCS) Audit

The Systems Development section is responsible for developing computer assisted audit capabilities for use by all audit staff as well as administrative systems employed within the Audit Office. These systems are developed and operated with the aid of the Audit Office's computer, thereby enhancing the efficiency and effectiveness of the audit function. The use of this independent computing resource reduces significantly the risk of outside interference in the audit process.

The EDP Attest and MCS Audit sections are responsible for formulating, developing and promulgating the EDP and MCS audit policies and practices employed by the Audit Office. These sections are also responsible for providing assistance to other Divisions of the Audit Office in the application and use of such policies and practices.

During the year, the Division provided advice to members of the Task Force responsible for the research and drafting of the CICA Auditing Guideline — AUDITING IN AN EDP ENVIRONMENT. The Auditor General and the Assistant Auditor General (Systems Audit Division), were members of the Task Force.

In the interests of increased audit efficiency, the Division is currently researching and will likely develop a series of enhanced computer assisted audit capabilities. While hosting a recent meeting of the CICA Computer Advisory Sub-Committee, the Audit Office was provided with an opportunity to explain and discuss its views on the future use of computers in auditing. As a result of this meeting, several national CA practices have expressed an interest in discussing the development of such capabilities with the Audit Office.

4.4.5 The Resources and Administration Division is responsible for the efficient operation of the Audit Office, and in particular for:

- (1) ensuring that Audit Office Management Committee decisions and directives are properly implemented,
- (2) the personnel function including the selection and hiring of staff,
- (3) co-ordinating the budgetary and accounting functions,
- (4) quality control encompassing content, format and presentation — including adherence to established standards and policies — of all audit reports, financial statements, management letters and other output of the Audit Office,
- (5) work scheduling and human resource allocation,
- (6) maintenance of the time recording and audit billing system,
- (7) professional research and development, the establishment of professional practice standards and in-house peer review assignments,



- (8) professional development including staff training and career advancement,
- (9) maintenance of the Audit Office Staff Manual,
- (10) co-ordination and preparation of the Auditor General's annual reports.

4.4.6 The audited financial statements of the Office of the Auditor General are reproduced in Appendix III to this report.

#### 4.5 STAFFING AND PROFESSIONAL DEVELOPMENT

4.5.1 The composition of the staff of the Audit Office at March 31, 1980 and 1981, and at September 30, 1981 was as follows:

	March 31, 1980	March 31, 1981	September 30 1981
Management committee	5	5	5
Audit principals and managers	23	26	24
Audit supervisors and senior technicians	43	52	53
Student auditors	61	63	65
Personnel and administrative	7	12	13
Total staff	139	158	160
Total positions	165	185	189

It should be noted that of the 29 positions vacant as at September 30, 1981, 19 were for chartered accountants.

4.5.2 The vacancy situation at September 30, 1981 is illustrative of a problem experienced by the Audit Office for some while. It is indicative of the shortage of qualified professional auditing staff which persists in Western Canada in general and in Alberta in particular.

4.5.3 In recent years, the work load of the Audit Office has increased substantially. This has been due to a combination of the new responsibilities contained in The Auditor General Act and growth of Government revenues and expenditures. It was to cope with this additional work-load that the Audit Office was given an additional twenty permanent positions with effect from April 1, 1980.

However, obtaining the qualified audit staff to fill these additional positions proved very difficult. Despite the Audit Office's professional development efforts and recruitment within Canada, a significant number of vacancies for qualified audit staff persisted. It was for this reason that the Auditor General, with the knowledge of the Select Standing Committee on Legislative Offices, was able to obtain the permission of Employment and Immigration Canada to recruit abroad. Following interviews conducted in the United Kingdom in September 1981, eleven chartered accountants and two systems analysts were recruited. These individuals will be joining the Edmonton office during 1982.

4.5.4 The Audit Office has continued to utilize the services of private sector chartered accountants. These firms act as agents of the Auditor General under the provisions of section 10 of The Auditor General Act. The contributions of agents in supplementing the staff resources of the Audit Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1981 were as follows:

Addison Krull  
 Arthur Andersen & Co.  
 Bailey Foulkes-Jones Lundell  
 Bevan, Hutch and Hagen  
 Campbell Sharp  
 Carpenter & Company  
 Clarkson Gordon  
 Colleaux & Mills  
 Coopers & Lybrand

Deloitte Haskins & Sells  
Hudson & Company  
Johnston, Morrison, Hunter & Nelson  
MacKay, Peachey & Co.  
Matthew Craig & Watts  
Peat, Marwick, Mitchell & Co.  
Price Waterhouse & Co.  
Quilliam, Stuart & Company  
Thorne Riddell  
Touche Ross & Co.  
Young, Parkyn, McNab & Co.  
Watkinson, Hanhart, Duda & Dorchak

- 4.5.5 In many respects, the Audit Office is structured and operates in a manner similar to private sector accounting firms. This operational similarity is recognized by the Institute of Chartered Accountants of Alberta in that for student registration purposes, its by-laws specifically designate the Audit Office a member engaged in the practice of public accounting. For this reason, and because it represents a longer-term solution of the need for more qualified auditors, the Audit Office is firmly committed to an increasing program of professional development for all its staff.

It is believed that the establishment of career paths within the Audit Office similar to those available in large private sector accounting firms is the most likely way to attract and retain a stable staff complement. An integral part of this is the establishment of an ongoing program of both pre and post qualification professional development. "On the job" training must always be the major thrust of this program but significant benefits are available by supplementing it with relevant classroom instruction. In this regard, the Audit Office designs and provides for its staff "in-house" courses covering its operational methods and techniques which should improve the quality of audits and the efficiency with which they are conducted.

The Office has a permanent lecture room complete with video equipment and other teaching aides. Two senior chartered accountants, each with considerable teaching experience, are employed full time in developing and presenting course material for all staff members. During the 1980-81 fiscal year, the Office provided approximately eighty days of in-house course instruction for its staff and this figure is expected to increase in future years. In addition, staff of the Office are subsidized to attend external courses and seminars in audit and management related subjects.

The Audit Office is unable to provide practical experience in personal and corporate taxation for its registered students. Since this is such an important curriculum subject, arrangements are made for these students to be seconded for periods to private sector firms of chartered accountants to obtain this required experience. Similarly, students from private sector firms of chartered accountants are seconded on occasion for periods to the Audit Office to enable them to obtain practical experience in auditing.

## 5. TABULATION OF RECOMMENDATIONS

- 5.1 Recommendations appearing throughout this report are reproduced in this section. Each recommendation has been serially numbered and cross referenced to the sub-section in which it originally appeared, so that the reader may readily determine the context in which the recommendation was made. Where a recommendation was contained in a previous year's report, the fiscal year covered by the report and the previous recommendation number is shown above and to the right of each recommendation.

### 1. (Section 1.2.4)

*It is recommended that consideration be given to amending The Alberta Heritage Savings Trust Fund Act to require investments in Provincial Corporations and other government entities, under the Alberta Heritage Savings Trust Fund's Alberta Investment Division, to be first appropriated from the Trust Fund by an Act of the Legislature.*

### 2. (Section 1.2.4)

*It is recommended that the Select Standing Committee on The Alberta Heritage Savings Trust Fund Act exercise similar powers to those of the Select Standing Committee on Public Accounts with respect to the financial affairs of Provincial Corporations and other government entities which borrow from the Alberta Heritage Savings Trust Fund.*

### 3. (Section 1.2.5)

*It is recommended that the Treasury Department establish an internal audit group, with an appropriate mandate and reporting structure, to review the administrative and performance measurement systems of the Alberta Heritage Savings Trust Fund on a continuing basis.*

### 4. (Section 1.2.6)

*It is recommended that the Treasury Department retain the services of an independent investment analyst capable of providing regular comparisons of the performance of the Heritage Fund with the performance of similar investment entities. Furthermore, consideration could be given to making the performance comparison information obtained from the independent investment analyst available to the Select Standing Committee on The Alberta Heritage Savings Trust Fund Act.*

### 5a. (Section 1.2.7)

*It is recommended that each published annual report of the Alberta Heritage Savings Trust Fund contain a positive representation by the Provincial Treasurer relating to the adequacy of the Trust Fund's internal control system (See example in sub-section 1.2.8 of this report).*

### 5b. (Section 1.2.7)

*It is recommended that each published annual report of the Alberta Heritage Savings Trust Fund contain a report by the Auditor General on the reasonableness of the Provincial Treasurer's representation relating to the adequacy of the Trust Fund's internal control system (See example in sub-section 1.2.8 of this report).*

### 5c. (Section 1.2.7)

*It is recommended that the annual financial statements of the Alberta Heritage Savings Trust Fund and the Provincial Treasurer's representation relating to the adequacy of the Trust Fund's internal control system, together with the reports of the Auditor General on both of these, be subject to review each year by the Audit Committee established pursuant to section 21 of The Auditor General Act before the Trust Fund's annual report is published.*

### 5d. (Section 1.2.7)

*It is recommended that the Select Standing Committee on The Alberta Heritage Savings Trust Fund Act meet at least once each year to consider the financial statements of the Alberta Heritage Savings Trust Fund and the Provincial Treasurer's representation relating to the adequacy of the Trust Fund's internal control system, together with the reports of the Auditor General on both of these, and that the Provincial Treasurer and the Auditor General be in attendance.*



6. (Section 2.2.1)

*It is recommended that the Department of Energy and Natural Resources establish a policy governing the frequency with which it will audit the records on non-renewable resource royalty payors to ensure the accuracy of royalties collected. Such policy should require the records of major payors to be audited on a cyclical basis, and that all payors be audited at least once during a given number of years.*

7. (Section 2.2.1)

*It is recommended that the Department of Energy and Natural Resources ensure that its Mineral Revenues Division Audit Section has sufficient resources to enable it to audit the appropriate records of royalty payors in accordance with the Department's established policy thereon. To be effective, these audits must be properly planned and executed in accordance with the general and examination standards of Generally Accepted Auditing Standards (C.I.C.A. Handbook — section 5100).*

8. (Section 2.2.1)

*It is recommended that provision be made in legislation to provide the Auditor General with access rights, similar to those of the Department of Energy and Natural Resources, to the appropriate records of organizations liable to pay royalties, for the sole purpose of joining, at his discretion, any Departmental audit in process. This will enable him to evaluate the adequacy of auditing performed by the Mineral Revenues Division Audit Section.*

9. (Section 2.2.2)

*It is recommended that the Department of the Environment conducts a comprehensive review of its systems practices and procedures for the acquisition and administration of real property. It is further recommended that appropriate legal advice be obtained during the course of this review, particularly respecting the wording on legal forms to be used in the systems. It is acknowledged that the Department has taken initial steps to undertake such a review.*

10. (Section 2.2.2)

*It is recommended that in view of the nature of transactions effected on a day to day basis by the Land Assembly Division of the Department of the Environment, arrangements be made to ensure that appropriate legal advice is available when needed.*

11. (Section 2.2.2)

*It is recommended that the Department of the Environment ensures that it has legislative authority to administer the real property it should administer.*

12. (Section 2.2.4)

*It is recommended that the Department of Social Services and Community Health strengthen its procedures to minimize the incidence of overpayments to social allowance recipients. Areas requiring particular attention are:*

- procedures to ensure prompt submission and processing of data decision sheets.*
- procedures to ensure that information contained in social allowance recipients' files is complete and up-to-date.*
- procedures to follow-up and recover social allowance overpayments.*
- procedures to ensure that replacement social allowance cheques are issued only in valid situations.*

13. (Section 2.2.4)

*It is recommended that the Department of Social Services and Community Health discontinue the accounting practice of reducing the year-end social allowance overpayments receivable and the allowance for doubtful accounts by an amount equal to one-third of the year-end receivable.*

14. (Section 2.2.5)

*It is recommended that, where necessary and appropriate, Government departments establish procedures to ensure that annual expenditures do not exceed authorized limits. Furthermore, the Office of the Controller and the Budget Bureau should institute procedures to ensure that Treasury Board directives relating to expenditure controls are complied with.*

15. (Section 2.2.7)

(1978-79: No. 13)

*It is recommended that, in view of the large and increasing volume (and value) of fixed assets administered by the Provincial Government, improvements be made to many of the systems currently in place to ensure adequate control and safeguards. These systems should incorporate the requirements of section 9.5 of the Treasury Department's Manual of Financial Administration, the most important of which are:*

- An accurate and timely record of assets under the entity's custodianship containing a description of each asset showing its location, original cost or assigned value, acquisition date and disposal date.*
- A program of physical counts to be taken periodically and reconciled to the records. The reconciliations and physical counts should be performed by independent persons.*
- Proper physical safeguards to prevent damage or misappropriation of fixed assets.*

16. (Section 2.2.7)

(1978-79: No. 15)

*It is recommended that all Provincial agencies and regulated funds which are not currently subject to the Treasury Department's Manual of Financial Administration, excepting those which have already done so, design, implement and document procedures to adequately record, account for and safeguard fixed assets under their custodianship. The principles contained in section 9.5 of the Treasury Department's Manual could be used as a guide in designing such procedures.*

17. (Section 2.2.8)

(1978-79: No. 20)

*It is recommended that when employees receive salary increases, the departments in which they are employed should ensure that overtime paid subsequently, relating to hours worked prior to the salary increase, is based on pre-increase salary rates.*

18. (Section 2.2.9)

*It is recommended that the University of Alberta's overexpended and overcommitted special funds accounts be subject to prompt and vigorous follow-up procedures to ensure adherence to stated University policies and procedures.*

19. (Section 2.2.9)

*It is recommended that The University of Alberta take steps to ensure that future borrowings on the Students' Union Account are maintained within the limit imposed by its agreement with the Students' Union.*

20. (Section 2.3.5)

(1979-80: No. 41)

*It is recommended that the Province adopt procedures to ensure that departments and Provincial agencies identify and provide the best possible (economic, efficient, effective) EDP system solutions. These procedures should include:*

- 1. An independent evaluation to assess whether or not the EDP development plan is in appropriate detail to describe the activities envisaged during the period of the plan, and that evidence is available to support the actions contemplated. In particular the evaluation should ensure that evidence is available which indicates that:*
  - a) senior departmental and Provincial agency management have reviewed and approved the plans for acquiring EDP equipment and services and have recognized their responsibilities with respect to their plans;*

- b) *problems identified by management of departments or Provincial agencies have been properly defined;*
  - c) *solutions to those problems have been properly planned and documented;*
  - d) *the most efficient, economic and effective solution is being proposed;*
  - e) *the necessary resources to implement the solution are available.*
2. *When and where appropriate, the progress made by the department or Provincial agency towards achieving the goals specified in an acquisition proposal should be independently reviewed and findings reported to the appropriate management officials.*
  3. *The findings of an independent post-implementation review should be reported to the appropriate management officials.*
  4. *An independent evaluation should be performed to determine whether or not Treasury Board Directive 07.81 and its associated EDP standards and guidelines, issued by the Office of the Controller and the Department of Government Services, have been complied with.*

21. (Section 2.3.6) (1979-80: No. 17)

*It is recommended that the Department of Hospitals and Medical Care strengthen its control over the payment of per diem grants to nursing homes under the Financial Assistance for Supervised Personal Care program by ensuring that:*

- *Provincial contributions and patient days data on monthly returns are reconciled with the data contained in monthly unaudited financial and statistical reports from nursing homes.*
- *Monthly data are reconciled with annually audited data, and that annually audited data are provided in a format which facilitates such reconciliations.*
- *Nursing homes are provided with guidelines for the preparation of monthly and annual reports and returns which will ensure that reporting is complete, accurate and consistent.*

22. (Section 2.3.6) (1979-80: No. 18)

*It is recommended that the Department of Hospitals and Medical Care establish procedures to enable management to ensure that inspection visits to nursing homes, which receive funding under the Financial Assistance for Supervised Personal Care program, are performed adequately, consistently and comprehensively.*

23. (Section 2.3.6) (1979-80: No. 19)

*It is recommended that the Department of Hospitals and Medical Care improve procedures to monitor and ensure compliance, by the nursing homes to which it contributes funding, with the regulations issued pursuant to The Nursing Homes Act.*

24. (Section 2.3.8) (1979-80: No. 22)

*It is recommended that management of all Public Colleges, excepting those which have already done so, document and implement procedures to account for and safeguard all fixed assets under their custodianship. The design of such procedures should be co-ordinated between the colleges and the Department of Advanced Education and Manpower.*

25. (Section 2.3.8) (1979-80: No. 22)

*It is recommended that the Minister of Advanced Education and Manpower provide Fairview, Keyano, Lakeland and Olds colleges with details (including values) of the assets transferred to the colleges by the Department on April 1, 1978. It is also recommended that the Minister obtain from the Department of Housing and Public Works, and provide to the colleges, similar information respecting land and buildings to be transferred to the colleges.*

26. (Section 2.3.8) (1979-80: No. 26)

*It is recommended that the Public Colleges, in conjunction with the Department of Advanced Education and Manpower, adopt policies for the capitalization and recording of fixed assets*



*which will ensure consistent fixed asset reporting between colleges and consistent apportionment of capital grant monies.*

**27. (Section 2.3.8)**

**(1979-80: No. 25)**

*It is recommended that the Minister of Advanced Education and Manpower determine whether or not it is necessary for Public Colleges to establish financial reserves. If it is considered necessary, the Minister should clarify the requirements for the approval of and expenditure from reserves and consult with the Colleges in order to establish broad guidelines related to the nature of acceptable reserve funds.*

**28. (Section 2.3.8)**

*It is recommended that the Minister of Advanced Education and Manpower provide the Public Colleges with clear definitions of the uses to which operating and capital grants paid pursuant to section 22 of The Colleges Act may be put.*

**29. (Section 2.3.10)**

**(1979-80: No. 29)**

*It is recommended, in order to improve the accuracy and authenticity of information produced by the Province's central salary payroll system, that the Office of the Controller, in conjunction with the Personnel Administration Office, ensure that departments and agencies using the system are provided with greatly improved and more comprehensive procedural and staff training documents. It is essential that this documentation be issued on a jointly co-ordinated basis by the Treasury Department and the Public Service Commissioner.*

**30. (Section 2.3.11)**

**(1979-80: No. 31)**

*It is recommended that management of departments and agencies, which use the Government's central data processing and storage facility, review the adequacy of their data and program security arrangements. In this regard, user departments and agencies must accept responsibility for assessing the sensitivity and confidentiality of their data and programs, and selecting the most appropriate (including cost-effective) security system options.*

**31. (Section 2.3.12)**

*It is recommended that the Teachers' Retirement Fund take steps to eliminate the significant control deficiencies with respect to bank reconciliations, pension payments and calculations, and control over the receipt of pension contributions and interest earnings.*

**32. (Section 2.3.12)**

*It is recommended that the Teachers' Retirement Fund develop and implement its new computer-based systems in a controlled and systematic fashion, ensuring that adequate operating and control requirements are incorporated and that systems are fully tested prior to implementation.*

**33. (Section 2.4.1)**

**(1978-79: No. 33)**

*It is recommended that consideration be given to implementing accounting policies to ensure that all appropriate fixed asset-related costs are charged to the programs, funds and Provincial agencies which derive the benefits from their use. It is suggested that achieving this objective may be facilitated by the use of a revolving fund, or similar vehicle, which could acquire and hold fixed assets having a material effect on future Government operations, and allocate the appropriate costs to programs, funds and Provincial agencies on a usage basis. Moreover, consideration should be given to requiring budgetary control over fixed assets acquired by revolving funds to be similar to that in effect for departmental programs.*

**34. (Section 2.4.1)**

*It is recommended that in order to achieve more comprehensive and meaningful reporting of program delivery costs, consideration be given, in the longer term, to including maintenance, utilities, rents and other centrally provided services of a significant nature, in the reported costs of individual programs and agencies.*

35. (Section 2.4.2)

(1979-80: No. 34)

*It is recommended that, in the interests of improved accountability to the Legislative Assembly and more effective budgetary control, appropriation bills should be supported by more extensive financial information on major capital expenditure projects. This information should include, inter alia, details of the original estimated costs and scope of each project, cost and scope revisions, costs incurred to the end of the previous fiscal year, current year cost forecast, amounts to be appropriated for costs to be incurred in the next fiscal year, estimated future year costs to completion, estimated impact of monetary inflation on past, current and future costs in relation to the original cost forecast, and the total estimated cost for each project. This recommendation should not be interpreted as suggesting that the Legislative Assembly should approve other than the next fiscal year's expenditures on these projects.*

36. (Section 2.4.3)

*It is recommended that, in future, the financial statements of the Pension Fund be included in the consolidated financial statements of the Province of Alberta. This would involve including Pension Fund assets with similar assets on the consolidated balance sheet and reflecting a like amount as a liability for part of the Province's accrued pension plan obligation.*

37. (Section 2.4.4)

(1978-79: No. 34)

*It is recommended that:*

*(a) The Treasury Department continue to:*

- (i) obtain actuarial valuations for all pension plans under its administrative responsibility and to have actuarial valuations conducted at least triennially thereafter,*
- (ii) obtain computer produced actuarial valuation projections for all pension plans, which can form a basis for annual interim valuations of each plan.*

*(b) Consideration be given to reflecting the unfunded liability arising under the various pension plans as a liability in the financial statements of the General Revenue Fund and the Province. This could be accomplished by:*

- (i) creating a liability in the financial statements of the General Revenue Fund and the Province sufficient to cover the unfunded liability for past service of employees as the liability becomes known,*
- (ii) thereafter creating a liability in the financial statements of the General Revenue Fund and the Province for any increase in the unfunded liability as revealed by successive actuarial valuations or actuarial projections, allocating the appropriate portion of this sum to government programs as an additional cost.*

*If the unfunded liability is to be shown as a liability in the financial statements of the General Revenue Fund and the Province, the assumptions and methods used in arriving at the valuations should be disclosed in the financial statements and efforts should be made to use uniform assumptions and methods, where appropriate, across all plans.*

38. (Section 2.4.5)

(1979-80: No. 35)

*It is recommended that, in the interest of more consistent financial presentation, all costs in connection with the delivery of the Exploratory Drilling Incentive and Geophysical Incentive programs be budgeted as expenditures in the annual Estimates and disclosed as expenditures in the Public Accounts of the Province. This will involve the aggregation of credits allowed and grants paid under these programs.*

39. (Section 2.4.5)

(1979-80: No. 36)

*It is also recommended that consideration be given to applying similar budgeting and financial statement disclosure requirements in other instances where significant program costs have been netted against revenue. For example, provincial taxation revenue has hitherto been presented net of Renter Assistance credits, Royalty tax credits, Political Contribution deductions and Taxation Administration fees.*

40. (Section 2.5.2)

(1979-80: No. 45)

*It is recommended that the Alberta Research Council take immediate and vigorous action to eliminate the pervasive and serious financial control problems in its fixed assets, sponsors' projects, sponsors' contracts, accounts receivable, expenditure and payroll accounting systems.*

41. (Section 2.5.5)

(1978-79: No. 25)

*It is recommended that measures be taken by the Department of Hospitals and Medical Care to reduce to a minimum the backlog in monthly reconciliations of Health Care Insurance Fund premiums charged, with premiums received from employers, and that efforts be continued to implement revised computer systems in order to facilitate more efficient and timely reconciliation procedures.*

42. (Section 2.5.5)

*It is recommended that the Department of Hospitals and Medical Care take appropriate steps to complete bank reconciliations for the Health Care Insurance Fund on a timely basis and ensure that these reconciliations are carefully reviewed and approved by supervisory personnel.*

43. (Section 2.5.5)

*It is recommended that the Department of Hospitals and Medical Care consider using the Treasury Cheque Status System, operated by the Treasury Department, to produce outstanding cheque lists for the Health Care Insurance Fund.*

44. (Section 2.5.6)

(1979-80: No. 44)

*It is recommended that the Treasury Department intensify its efforts to eliminate the accounting and financial control deficiencies in the operations and accounting records of the Pension Administration.*

45. (Section 2.5.7)

*It is recommended that the Treasury Branches Deposits Fund establish procedures to ensure that Term Deposits Computer System data are reconciled to branch records on a current and ongoing basis.*

46. (Section 2.6.2)

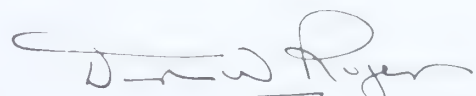
*It is recommended that the Minister of Social Services and Community Health remove the restrictions imposed by him upon the Auditor General's right of access to certain records maintained by the Department of Social Services and Community Health. This right of access is otherwise provided by section 15 of The Auditor General Act.*

47. (Section 2.7.2)

(1978-79: No. 43)

*It is recommended that the objectives of each program be stated in as specific a manner as possible, with quantitative data being provided wherever practicable, as measures of the intended results to be achieved by the expenditure of the funds requested for the program. Upon completion of the fiscal year, reports should be prepared on behalf of the responsible Minister evaluating the achievements resulting from the expenditure of funds from a program in terms of the objectives and quantitative data given in the estimates. These reports should result from an organized, documented and systematic evaluation of program activities and may be audited by the Auditor General. These reports would be laid before the Legislative Assembly by the Minister as a part of his accountability reporting.*

Edmonton, Alberta  
February 26, 1982

  
C.A.  
Auditor General





## APPENDIX I



# 1977

## CHAPTER 56

### THE AUDITOR GENERAL ACT

*(Assented to November 10, 1977)*

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

#### Definitions

1(1) In this Act,

(a) "Auditor General" means the Auditor General of Alberta;

(b) "Crown-controlled organization" means

(i) a corporation that is incorporated by or under an Act of the Legislature, other than a local or private Act, one or more but less than a majority of whose members or directors are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof, or

(ii) an unincorporated board, commission, council or other body that is not a department or part of a department, one or more but less than a majority of whose members are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof,

that is responsible for the administration of public money or assets owned by the Crown, and includes a corporation, more than 50% but less than 100% of whose issued voting shares are owned by the Crown or held in trust for the Crown or are partly owned by the Crown and partly held in trust for the Crown;

(c) “department” means a department as defined in section 1 of *The Financial Administration Act, 1977* and includes

(i) the officers and employees of the Legislative Assembly,

(ii) the Ombudsman and the staff of the Office of the Ombudsman, and

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer;

(d) “employee of the Office of the Auditor General” includes a person engaged on a fee basis by the Auditor General;

(e) “public money” means public money as defined in *The Financial Administration Act, 1977* and includes money forming part of the Treasury Branches Deposits Fund;

(f) “regulated fund” means a regulated fund as defined in *The Financial Administration Act, 1977* and includes the Treasury Branches Deposits Fund;

(g) “Select Standing Committee” means the Select Standing Committee on Legislative Offices;

(h) “voting share” means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

(2) Except as provided in subsection (1), words or expressions defined in *The Financial Administration Act, 1977* have the same meaning in this Act.

Establishment  
of select  
standing  
committee

**2(1)** There is hereby established a select standing committee of the Assembly called the “Select Standing Committee on the Office of the Auditor General” consisting of 9 members, one of whom shall be the chairman and another of whom shall be the deputy chairman.

(2) The members of the Select Standing Committee and its chairman and deputy chairman shall be appointed at the commencement of each session in the same way that members, chairmen and deputy chairmen are appointed to other select standing committees of the Assembly.

(3) In the absence of the chairman and deputy chairman at a meeting of the Select Standing Committee, the members present shall appoint a member to preside at that meeting.



(4) The Select Standing Committee may, without leave of the Assembly, sit during a period when the Assembly is adjourned or after prorogation of the Legislature.

(5) For the purposes of *The Financial Administration Act, 1977*, a person who holds the office of chairman or deputy chairman of the Select Standing Committee at the time of a dissolution of the Legislature continues to hold the office of chairman or deputy chairman until the day preceding the date fixed by Proclamation for the next sitting of the Legislature to begin.

Appointment  
of Auditor  
General

**3(1)** There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

Resignation  
of Auditor  
General

**4** The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

Suspension or  
removal from  
office

**5** On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

Vacancy  
in office

**6(1)** If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.

(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

Salary and  
benefits

**7(1)** The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

Acting Auditor  
General

**8(1)** The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

Office of the  
Auditor General

**9(1)** There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to *The Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendation of the Auditor General, the Select Standing Committee may, by resolution, direct that any regulation, order or directive made under *The Public Service Act* or *The Financial Administration Act, 1977* or any allocation, designation or other decision of the Public Service Commissioner under *The Public Service Act* be inapplicable to, or be varied in its operation in respect of, the Office of the Auditor General.

(3) A direction made under subsection (2) in relation to a regulation, order or directive made under *The Financial Administration Act, 1977* operates notwithstanding that Act.

Engagement of  
services on fee  
basis

**10** The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

Delegation of  
power or duty

**11(1)** Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

Auditor General  
is auditor

## 12 The Auditor General

(a) is the auditor of every department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

Financing of  
operations

**13(1)** The Auditor General shall submit annually to the Select Standing Committee an estimate of the sums that will be required to be provided by the Legislature for the payment of the salaries, allowances and expenses of the Office of the Auditor General during the next ensuing fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, upon completion of the review, the chairman of the Committee shall submit the estimate to the Treasurer for inclusion in the estimates.

(3) Where at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the public interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports either that

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) Where the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.



(5) Where a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of *The Financial Administration Act, 1977* for the fiscal year in which the special warrant is signed.

(6) Where a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of *The Financial Administration Act, 1977*, added to and deemed to be part of the supply vote to which the report relates.

(7) Where a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

Auditor General  
may charge fees

**14** The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

Access to  
information

**15(1)** The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explanations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

Right to  
information

**16(1)** If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General upon his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General upon his request a full explanation of the work performed, tests and examination made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

Special duties  
of Auditor  
General

**17(1)** The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

Annual report  
on financial  
statements

**18(1)** After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and as to whether they are on a basis consistent with that of the preceding fiscal year,

(b) where the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

Annual report  
of Auditor  
General

**19(1)** After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of his office, and

(b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,



(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) where appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or were not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, or

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) The annual report shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

Special reports

**20(1)** The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who

shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

Establishment  
of Audit  
Committee

**21(1)** There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

Meetings of  
Audit Committee

**22(1)** The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, upon request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

Information re  
scope and  
results of  
audit

**23** The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

Availability of  
reports

**24** An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

When report  
not required

**25** In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

Supplementary  
information

**26** The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

Audit working  
papers

**27** Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

Report after  
examination

**28** The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

Advice on  
organization,  
systems, etc

**29** The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

Annual audit

**30(1)** The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

Reference to  
Provincial Auditor

**31** A reference to the Provincial Auditor in an Act of the Legislature, in any regulation, order or directive made under an Act of the Legislature or in any document or instrument, made before the commencement of this Act is deemed to be a reference to the Auditor General, unless the context otherwise requires.

Acts amended

**32(1)** *The Agricultural Development Act is amended by repealing section 8 and substituting the following:*

Auditor

**8** The Auditor General is the auditor of the Corporation.



(2) *The Alberta General Insurance Company Act is amended by repealing section 21(2) and substituting the following:*

(2) The Auditor General is the auditor of the Company.

(3) *The Alberta Government Telephones Act is amended*

(a) *in section 8(1) by striking out “and auditing”,*

(b) *by repealing section 22 and substituting the following:*

Auditor                    **22** The Auditor General is the auditor of the commission.

(c) *in section 23(1) by striking out “of its financial transactions during the period”.*

(4) *The Alberta Heritage Savings Trust Fund Act is amended*

(a) *by repealing section 12(1) and substituting the following:*

Auditor                    **12(1)** The Auditor General is the auditor of the Trust Fund.

(b) *in section 12(2) by striking out “Provincial Auditor” and substituting “Auditor General”.*

(5) *The Alberta Historical Resources Act is amended by repealing section 31 and substituting the following:*

Auditor                    **31** The Auditor general is the auditor of the Foundation.

(6) *The Alberta Municipal Financing Corporation Act is amended by repealing section 33 and substituting the following:*

Auditor                    **33** The Auditor General is the auditor of the corporation.

(7) *The Alberta Opportunity Fund Act is amended in section 17(3) by striking out “Provincial Auditor” and substituting “Auditor General”.*

(8) *The Alberta Resources Railway Corporation Act is amended by repealing section 25 and substituting the following:*

Auditor                    **25** The Auditor General is the auditor of the Corporation.

(9) *The Alcoholism and Drug Abuse Act is amended*

(a) *by repealing section 9 and substituting the following:*

Auditor                    **9** The Auditor General is the auditor of the Commission.

(b) *in section 12(1) by striking out “of its accounts and financial transactions during that period”.*

(10) *The Alberta Art Foundation Act is amended by repealing section 9(1) and substituting the following:*

Auditor

**9(1)** The Auditor General is the auditor of the Foundation.

(11) *The Cancer Treatment and Prevention Act is amended*

(a) *in section 13(2) by striking out “for the certification of the Provincial Auditor” and substituting “for audit by the Auditor General”,*

(b) *in section 13(3) by striking out “Provincial Auditor or his nominee” and substituting “Auditor General”, and*

(c) *in section 14(2) by striking out “the statements prepared pursuant to section 13, subsection (2) and certified by the Provincial Auditor,” and substituting “the audited financial statements”.*

(12) *The Colleges Act is amended by repealing section 39 and substituting the following:*

Auditor

**39** The Auditor General is the auditor of a college board.

(13) *The Cultural Development Act is amended in section 7(7) by striking out “Provincial Auditor” and substituting “Auditor General”.*

(14) *The Department of Government Services Act is amended*

(a) *in section 7(3)(d) by striking out “Provincial Auditor” and substituting “Auditor General”.*

(b) *in section 12(5) by striking out “Provincial Auditor” and substituting “Auditor General”.*

(15) *The Department of Housing and Public Works Act is amended in section 16*

(a) *by repealing subsection (1) and substituting the following:*

Annual  
Statements

**16(1)** On or before June 15 in each year the Minister shall

(a) cause to be prepared a balance sheet and statement of operations of the revolving fund for the immediately preceding fiscal year,

(b) submit the financial statements to the Auditor General.

(b) *in subsection (2) by striking out “The statements as certified by the Provincial Auditor” and substituting “The audited financial statements”, and*

(c) in subsection (3) by striking out “statements certified by the Provincial Auditor” and substituting “audited financial statements”.

(16) *The Department of Social Services and Community Health Act is amended in section 13*

(a) in subsection (1)(i) by adding “if the Auditor General is not the auditor of a composite board,” before “provide”, and

(b) in subsection (2)(g) by striking out “Provincial Auditor” and substituting “Provincial Treasurer”.

(17) *The Department of Transportation Act is amended in section 13*

(a) by repealing subsection (1) and substituting the following:

Annual  
statements

**13(1)** On or before June 15 in each year the Minister shall

(a) cause to be prepared a balance sheet and statement of operations of the revolving fund for the immediately preceding fiscal year, and

(b) submit the financial statements to the Auditor General.

(b) in subsection (2) by striking out “The statements as certified by the Provincial Auditor” and substituting “The audited financial statements”, and

(c) in subsection (3) by striking out “statements certified by the Provincial Auditor” and substituting “audited financial statements”.

(18) *The Drainage Districts Act is amended by striking out “Provincial Auditor” wherever it appears in the following provisions and substituting “Auditor General”:*

section 28;

section 61(6).

(19) *The Environment Council Act is amended by repealing section 8(3) and substituting the following:*

(3) The Auditor General is the auditor of the Council.

(20) *The Glenbow-Alberta Institute Act is amended by repealing section 19 and substituting the following:*



Auditor

**19** The Auditor General is the auditor of the Institute.

(21) *The Hail and Crop Insurance Act is amended by repealing section 8 and substituting the following:*

Auditor

**8** The Auditor General is the auditor of the Corporation.

(22) *The Alberta Home Mortgage Corporation Act is amended by repealing section 11 and substituting the following:*

Auditor

**11** The Auditor General is the auditor of the Corporation.

(23) *The Alberta Housing Act is amended*

(a) *by repealing section 18 and substituting the following:*

Auditor

**18** The Auditor General is the auditor of the Corporation.

(b) *by repealing section 19(1)(a) and substituting the following:*

(a) audited financial statements, and

(24) *The Industrial Wages Security Act is amended in section 8 by striking out “Provincial Auditor” wherever it occurs and substituting “Provincial Treasurer”.*

(25) *The Irrigation Act is amended in section 43*

(a) *in subsection (1) by striking out “Provincial Auditor or his nominee” and substituting “Auditor General”, and*

(b) *by repealing subsection (2) and substituting the following:*

(2) The Auditor General is the auditor of a board.

(c) *by repealing subsections (3) and (4).*

(26) *The Irrigation Land Manager Act is amended*

(a) *by repealing section 11(1) and substituting the following:*

Auditor

**11(1)** The Auditor General is the auditor of the Land Manager.

(b) *in section 12 by repealing clause (b) and substituting the following:*

(b) audited financial statements.

(27) *The Legislative Assembly Act is amended in section 14(3)(b) by striking out “Provincial Auditor” and substituting “Provincial Treasurer”.*

(28) *The Liquor Control Act is amended*(a) *by repealing section 19 and substituting the following:*Annual  
statements**19**(1) The fiscal year of the Board is the period from April 1 to March 31 next following.

(2) After the end of a fiscal year the Board shall prepare a balance sheet and statement of results of operations.

(3) The Auditor General is the auditor of the Board.

(b) *by repealing section 25(2)(b) and substituting the following:*

(b) the audited financial statements of the Board,

(c) *by repealing section 25(4), and*(d) *in section 26(1) by striking out “, as certified by the Provincial Auditor,”.*(29) *The Local Authorities Board Act is amended by repealing section 83 and substituting the following:*

Auditor

**83** The Auditor General is the auditor of the Board.(30) *The Natural Gas Price Administration Act is amended by striking out “Provincial Auditor” wherever it occurs in the following provisions and substituting “Auditor General”:*

section 16(9)(b) and (10);

section 17(7)(b) and (8).

(31) *The Natural Gas Pricing Agreement Act is amended by striking out “Provincial Auditor” wherever it occurs in the following provisions and substituting “Auditor General”:*

section 15(9)(b) and (10);

section 16(7)(b) and (8).

(32) *The Northland School Division Act is amended by repealing section 7 and substituting the following:*

Auditor

**7** The Auditor General is the auditor of the board.(33) *The Oil Sands Technology and Research Authority Act is amended by repealing section 12 and substituting the following:*

Auditor

**12** The Auditor General is the auditor of the Authority.

(34) *The Pension Benefits Act is amended by repealing section 8.*

(35) *The Petroleum Marketing Act is amended*

*(a) by repealing section 10 and substituting the following:*

Auditor

**10** The Auditor General is the auditor of the Commission.

*(b) in section 11(1) by striking out “of its financial transactions during the period”.*

(36) *The Alberta Property Tax Reduction Act is amended in section 25(d) by striking out “, the Provincial Auditor”.*

(37) *The Provincial General Hospitals Act is amended*

*(a) in section 14(2) by striking out “for certification of the Provincial Auditor” and substituting “for audit by the Auditor General”,*

*(b) in section 14(3) by striking out “Provincial Auditor” and substituting “Auditor General”, and*

*(c) in section 15(2) by striking out “the statements prepared pursuant to section 14, subsection (2) and certified by the Provincial Auditor,” and substituting “the audited financial statements”.*

(38) *The Public Contributions Act is amended in section 9 by striking out “Provincial Auditor” and substituting “Provincial Treasurer”.*

(39) *The Public Service Act is amended in section 3(2) by striking out “Provincial Auditor” and substituting “Auditor General”.*

(40) *The Public Trustee Act is amended by repealing section 42.*

(41) *The Racing Commission Act is amended by repealing section 10 and substituting the following:*

Auditor

**10** The Auditor General is the auditor of the Commission.

(42) *The Recreation, Parks and Wildlife Foundation Act is amended by repealing section 11 and substituting the following:*

Auditor

**11** The Auditor General is the auditor of the Foundation.

(43) *The Research Council Act is amended by repealing section 16 and substituting the following:*

Auditor

**16** The Auditor General is the auditor of the Research Council.



(44) *The Special Areas Act is amended*

(a) *in section 18(1) by striking out "Provincial Auditor" and substituting "Minister",*

(b) *by repealing section 18(1)(b) and substituting the following:*

(b) shall submit the statement to the Auditor General for auditing.

(c) *in section 18(2) by striking out "statement referred to in subsection (1)" and substituting "audited financial statement".*

(45) *The Teachers' Retirement Fund Act is amended by repealing section 11 and substituting the following:*

Auditor

**11(1)** The Auditor General is the auditor of the Board.

(2) The Board shall make an annual report to the Minister which shall include the audited financial statements and such other statements and reports as the Lieutenant Governor in Council may require.

(46) *The Treasury Branches Act is amended by repealing section 14 and substituting the following:*

Annual  
statements

**14** The Minister shall as soon as practicable after the end of a fiscal year prepare financial statements for the Fund showing the financial position, results of operations and changes in financial position, during that fiscal year, and those statements shall be included in the public accounts.

(47) *The Ultimate Heir Act is amended in section 6(6) by striking out "Provincial Auditor" and substituting "Auditor General".*

(48) *The Universities Act is amended by repealing section 46 and substituting the following:*

Auditor

**46** The Auditor General is the auditor of a board.

(49) *The University of Alberta Hospital Act is amended*

(a) *in section 11(1) by striking out "for the certification of the Provincial Auditor" and substituting "for audit by the Auditor General",*

(b) *by repealing section 11(2) and substituting the following:*

(2) The Auditor General is the auditor of the Board.

(c) *by repealing section 12(2) and substituting the following:*

(2) The report shall contain the audited financial statements.

(50) *The Wheat Board Money Trust Act is amended by repealing section 10 and substituting the following:*

Auditor **10** The Auditor General is the auditor of the Trust.

(51) *The Workers' Compensation Act is amended in section 62 by repealing subsection (1) and substituting the following:*

Auditor **62**(1) The Auditor General is the auditor of the Board.

Commencement **33**(1) This Act, except section 32(30), comes into force on April 1, 1978.

(2) Section 32(30) comes into force on a date to be fixed by Proclamation.





APPENDIX II

REPORT TO THE PUBLIC ACCOUNTS COMMITTEE  
OF THE  
LEGISLATURE OF ALBERTA  
REGARDING THE  
RECOMMENDATIONS IN  
THE REPORT OF THE AUDITOR GENERAL OF MARCH 31, 1980

Submitted by the  
Provincial Treasurer  
on behalf of the  
Executive Council  
October, 1981



## Recommendation

1. **FEDERAL COST-SHARING CLAIM**  
(Section 2.2.1, Page 6)  
(1978-79: No. 11)

It is recommended that where costs eligible for cost-sharing under Federal Provincial or other agreements are incurred in more than one department of Government, procedures should be established to ensure adequate liaison when submitting claims.

### Comments

The recommendation is repeated as the Auditor General has not reviewed the adequacy or the operation of the monitoring procedures which were established. DREE and Nutritive Processing Assistance Claims are co-ordinated by the Revenue Administration Division of Treasury. In addition, as part of the ongoing review and monitoring of revenue receipts under federal provincial cost shared agreements, the Government is currently comparing an inventory of all of these programmes to the related revenues received in order to identify areas where liaison and or follow-up is required.

## Recommendation

2. **FEDERAL SALES TAX**  
(Section 2.2.2, Page 7)  
(1978-79: No. 12)

It is recommended that a senior official in the Treasury Department be assigned the task of ensuring that Government officials in departments and agencies are provided with information concerning federal sales tax regulations and their implications, and should further be responsible for monitoring refund claims to ensure that they are properly and promptly submitted.

### Comments

The Revenue Administration Division of Treasury has recently been assigned the responsibilities as recommended. During the past several months guidelines have been prepared relating to sales and excise tax procedures and the sales tax status of a number of items has been clarified with federal officials. Reviews, by the Revenue Administration Division, of departmental sales and excise tax procedures are now being carried out on an on-going basis to ensure that procedures are adequate.

## Recommendation

3. **FIXED ASSETS**  
(Section 2.2.3, Page 13)  
(1978-79: No. 13)

It is recommended that, in view of the large and increasing volume (and value of fixed assets administered by the Provincial Government, improvements be made to many of the systems currently in place to ensure adequate control and safeguards. Every effort should be made, as soon as possible, to implement systems which comply with the guidelines contained in section 9.5 of the Treasury Department's Manual of Financial Administration. Management of each Government entity should ensure that all fixed assets under its custodianship are controlled by these systems.

### Comments

Improvements are being made to control systems. Efforts will be made to concentrate firstly on achieving control over high risk items and those areas where improved control can be achieved without incurring disproportionate administrative costs.

This recommendation will be considered in conjunction with recommendation number 33 in better defining the accounting requirements for fixed assets.



#### Recommendation

4. **FIXED ASSETS**  
(Section 2.2.3, Page 13)  
(1978-79: No. 14)

It is also recommended that the Office of the Controller review section 9.5.2 of the Manual of Financial Administration which defines fixed assets, inter alia, as “. . . items of tangible, public property that cost in excess of \$100 . . .”. Consideration should be given to increasing this figure. This recommendation does not apply to assets described as “. . . considered targets for pilferage or readily convertible into cash.”

#### Comments

The Government concurs with the recommendation. Consideration will be given to increasing this figure in conjunction with the accounting policies and the related definitional changes which may be required for charging fixed asset-related costs, outlined in recommendation number 33.

#### Recommendation

5. **FIXED ASSETS**  
(Section 2.2.3, Page 13)  
(1978-79: No. 15)

It is recommended that all Provincial agencies and regulated funds which are not currently subject to the Treasury Department's Manual of Financial Administration, excepting those which have already done so, design, implement and document procedures to adequately record, account for and safeguard all fixed assets under their custodianship. The principles contained in section 9.5 of the Treasury Department's Manual could be used as a guide in designing such procedures.

#### Comments

Provincial agencies and regulated funds are encouraged to model their procedures on those included in the Accounting and Financial Control Manual.

#### Recommendation

6. **INVESTMENT OF SURPLUS FUNDS**  
(Section 2.2.4, Page 14)

It is recommended that where appropriate, Provincial agencies utilize the services of the Consolidated Cash Investment Trust Fund to maximize investment yield while maintaining liquidity of funds surplus to immediate requirements. Consideration should also be given to advising appropriate recipients of provincial grants of the benefits available to depositors in the Fund.

#### Comments

While there is merit from a pure investment and cash management viewpoint to the participation of Provincial agencies and recipients of provincial grants in the CCITF, such participation can only be considered in the context of:

- a) Legislative Authority — Participation in CCITF by agencies or regulated funds requires a review of the legislative authority.
- b) Local considerations, such as the placement of surplus funds in local financial institutions may be a factor in the decision by the agency or regulated fund. In some areas, local financial institutions may wish to institute fees for banking services where surplus funds are not made available to them for investment.

## Recommendation

### 7. WAPITI LODGE — GRANDE PRAIRIE (Section 2.2.7, Page 16)

It is recommended that, in connection with the occupancy of Wapiti Lodge, Grande Prairie by the Salvation Army, the Department of Social Services and Community Health:

- inform the Department of Housing and Public Works of the terms and conditions of the tenancy arrangements with the Salvation Army.
- locate and record furnishings and equipment acquired for the Lodge by the Province.
- clarify with the Salvation Army the disposition of past and future costs of repairs and utilities.
- obtain from the Salvation Army the required evidence of insurance both for its own information and on behalf of the Department of the Solicitor General.
- request that the Salvation Army provide audited financial statements which reflect the costs of the services provided, for its own information and on behalf of the Department of the Solicitor General.

## Comments

In connection with the occupancy of Wapiti Lodge, the Department of Social Services and Community Health:

- has informed the Department of Housing and Public Works of the occupancy arrangements,
- completed, on 8-Jan-81, a full inventory of equipment and furnishings at Wapiti Lodge,
- has clarified the disposition of past cost repairs and utilities with the Salvation Army. The future responsibility of these expenditures has been identified in a new lease agreement between Housing and Public Works and the Salvation Army,
- has requested evidence of insurance from the Salvation Army and will be advised of such requirements prior to the execution of any subsequent agreement,
- will request from the Salvation Army annual audited financial statements, such statements to provide for separation and identification of the varying costs of different programme components.

## Recommendation

### 8. WAPITI LODGE — GRANDE PRAIRIE (Section 2.2.7, Page 17)

It is recommended that, in connection with the occupancy of Wapiti Lodge, Grande Prairie by the Salvation Army, the Department of Housing and Public Works:

- execute a lease with the Salvation Army covering its continuing occupation of Wapiti Lodge, Grande Prairie in accordance with the service agreement between the Salvation Army and the Department of Social Services and Community Health,
- ensure that it exercises control over all Government-owned and occupied premises, so that in future it may effectively monitor occupancy arrangements by non-Government tenants, supervise leasing arrangements and inform other departments affected by such arrangements.

## Comments

Alberta Housing and Public Works, Realty Division, is formalizing a lease agreement with the Salvation Army in accordance with the service agreement between the Salvation Army and Alberta Social Services and Community Health.

With the reorganization of Alberta Housing and Public Works in 1978, a Realty Division responsible for acquiring all general purpose leased space for the Government was established. This Division is also responsible for leasing arrangements with non-government entities occupying crown space. To ensure that the Wapiti Lodge situation is an isolated incident, the department is undertaking a review of all crown space to ensure that lease agreements are in place for all non-government occupants. In addition, Government departments have been reminded of the Realty Division's mandate with respect to the administration of leased space and that crown space must not be utilized by non-government occupants without the prior approval of Alberta Housing and Public Works.

#### Recommendation

##### 9. WAPITI LODGE — GRANDE PRAIRIE (Section 2.2.7, Page 16)

It is recommended that, in connection with the occupancy of Wapiti Lodge, Grande Prairie by the Salvation Army, the Department of Government Services:

- advise the Department of Social Services and Community Health of the amount that has been expended on repairs, maintenance and utilities from April 1, 1975 to March 31, 1980, and request instructions both for the disposition of these charges and the manner in which future repair, maintenance and utility costs are to be paid.

#### Comments

In connection with the occupancy of Wapiti Lodge, the Department of Government Services:

- has advised the Department of Social Services and Community Health of expenditures on repairs, maintenance and utilities from 1-Apr-75 to 31-Mar-80. The Department of Social Services and Community Health has determined that the Salvation Army should not be charged for these costs.
- has requested instructions for the disposition of these charges and the manner in which future repair, maintenance and utility costs are to be paid. The responsibility for these charges has been identified in a new lease agreement between Alberta Housing and Public Works and the Salvation Army.

#### Recommendation

##### 10. WAPITI LODGE — GRANDE PRAIRIE (Section 2.2.7, Page 17)

It is recommended that where more than one Department of the Government requires common services to be provided by a single agency, a single Department be appointed to assume responsibility for coordinating the preparation of contracts and agreements relating to the provision of those services to ensure that:

- contracts are properly prepared.
- there are no conflicts in the terms of the various contracts.
- services to be provided are properly defined.
- all parties involved are aware of their obligations.

#### Comments

The Government agrees that it is desirable to co-ordinate the preparation of contracts and agreements relating to the provision of common services. The Departments of Government Services and Housing and Public Works are improving procedures for co-ordinating building services and leased space which is the most usual form of common services.



## Recommendation

### 11. WAPITI LODGE — GRANDE PRAIRIE (Section 2.2.7, Page 17)

It is recommended that the Office of the Controller improve its contract registry system so that the Disbursement Control division may more readily detect and prevent anomalies between contracts and agreements related to the same agency.

#### Comments

The administration of the system has been transferred to Alberta Government Services who are reviewing the feasibility of making it available to all government departments and agencies. At present the contract registry system is not available to users other than Housing and Public Works.

The requirement for submission of contracts to the Controller's Office has been standardized which should assist in monitoring contracted arrangements between government departments and private agencies. The Controller's Office is also reviewing the best method by which anomalies can be detected.

## Recommendation

### 12. COLLECTION OF PUBLIC MONEY (Section 2.3.1, Page 20) (1978-79: No. 26)

It is recommended that, where necessary and appropriate, greater effort be made to achieve full compliance with the management and internal control guidelines relating to cash receipts and incoming mail contained in section 8.3 of the Treasury Department's Manual of Financial Administration.

#### Comments

Most departments made adjustments to ensure that cash receipts and incoming mail were processed in accordance with the recommendation. The Office of the Controller is now conducting reviews of internal control systems including receipt of cash, advising departments of deficiencies in those procedures and making specific recommendations for improvement.

## Recommendation

### 13. CONDITIONAL GRANT PAYMENTS (Section 2.3.2, Page 20) (1978-79: No. 18)

It is recommended that appropriate provisions be contained in all conditional grant agreements to provide donor departments and agencies, the Provincial Treasurer (Office of the Controller) and the Auditor General, with right of access, inspection and audit of the relevant records of all conditional grant recipients. This right may be invoked on a discretionary sample basis or where grounds exist for suspecting that grant monies have not been used in compliance with the terms of the grant agreement.

#### Comments

Revisions to the Accounting and Financial Control Manual state specifically that initiation of any grant payment should be supported by a formal application which provides for both departmental audit and audit by the Auditor General. An optional approach which is being considered is to make revisions to the manual which would state that the formal application must provide that the grant recipient will, on request, provide the department and or the Auditor General with appropriate audited statements. These requirements, however, should be considered in relation to the nature and experience of the grant recipient and the types of records and reports that they could reasonably be expected to provide, especially if the applicant is a volunteer group.

The Office of the Controller reviews grant agreements to ensure that they include appropriate conditions.

## Recommendation

### 14. CONDITIONAL GRANT PAYMENTS (Section 2.3.2, Page 20) (1978-79: No. 17)

It is also recommended that departments and agencies make more use of their rights to pursue conditional grants into recipients' records to ensure that they are used for the purposes intended.

#### Comments

The Government agrees that departments and agencies should review, in appropriate cases, conditional grants to ensure that they are used for the purposes intended. The Office of the Controller reviews departmental procedures to ensure that there is adequate follow-up of conditional grants.

## Recommendation

### 15. MANAGEMENT INFORMATION SYSTEM — CENTRAL VEHICLE SERVICES (Section 2.3.3).

It is recommended that, because of control inadequacies and the possible cost of corrective measures, the Department of Government Services evaluate the basic functions of the Management Information System for Central Vehicle Service in the context of current requirements, and that the suitability of the system for the achievement of its basic objectives be subject to a thorough cost-benefit analysis.

#### Comments

The Department of Government Services has evaluated the functions of the Management Information System for Central Vehicle Services. It has concluded that its basic objectives were not realized and as a result, has decided to withdraw from the central payment processing of direct operating expenses. It is in the process of decentralizing the payment of vehicle expenses whereby each user will be identified as the customer rather than Central Vehicle Services.

## Recommendation

### 16. DEPARTMENT OF GOVERNMENT SERVICES — MANAGEMENT INFORMATION SYSTEM FOR CENTRAL VEHICLE SERVICE (Section 2.3.3, Page 22)

It is recommended that where significant electronic data processing systems are developed and implemented by government entities:

- systems should be compatible, wherever practicable, with the Province's central data-based accounting and information system.
- they should be subjected to formal post-implementation reviews to ensure that they have met originally defined objectives. Where originally defined objectives have not been met it is incumbent upon management of the entity concerned to decide upon the action to be taken and the ultimate disposition of the system.

#### Comments

Standards for development of electronic data processing (E.D.P.) systems are contained in the "Control Standards for E.D.P. Systems" manual issued by the Office of the Controller. These standards, which were effective 1-Apr-81, require an appropriate development methodology and suggest that representatives of the Auditor General's and the Controller's Offices be invited to sit on the Steering Committee. Adherence to these standards and consultation with the Office of the Controller should ensure that systems which are developed are compatible with the central accounting system.

Once the system is in place, the Office of the Controller reviews the system to ensure adherence to the standards outlined in the manual, and that originally defined objectives have been met.

## Recommendation

### 17. NURSING HOME PROGRAM (Section 2.3.4, Page 23)

It is recommended that the Department of Hospitals and Medical Care strengthen its control over the payment of per diem grants to nursing homes under the Financial Assistance for Supervised Personal Care program by ensuring that:

- Provincial contributions and patient days data on monthly returns are reconciled with the data contained in monthly unaudited financial and statistical reports from nursing homes.
- Monthly data are reconciled with annually audited data, and that annually audited data are provided in a format which facilitates such reconciliations.
- Nursing homes are provided with guidelines for the preparation of monthly and annual reports and returns which will ensure that reporting is complete, accurate and consistent.

#### Comments

A new schedule has been introduced to reconcile expenditures on the monthly financial and statistical reports to that reported on the annual audited returns. Systems programming will be undertaken to compare the data reported on the monthly and annual reports.

A schedule summarizing patient days, daily rate and income, by responsibility for payment, has been included in the revised Annual Return of Nursing Homes. This schedule will assist in verifying provincial contributions and patient days funded under the Nursing Home Programme.

The Department has prepared an Instruction and Definition Guide for the completion of the Annual Return of Nursing Homes. This guide will serve as a reference and will ensure uniform reporting on the revised Annual Return.

Work has commenced on improvements to the data processing system which will result in a routine comparison of patient day's data on monthly claims, monthly returns and annual audited returns. Any exceptions reported through this system will be carefully followed up by the department's Internal Audit Branch.

## Recommendation

### 18. NURSING HOME PROGRAM (Section 2.3.4, Page 23)

It is recommended that the Department of Hospitals and Medical Care establish procedures to enable management to ensure that inspection visits to nursing homes, which receive funding under the Financial Assistance for Supervised Personal Care program, are performed adequately, consistently and comprehensively to review compliance with legislated standards of patient care.

#### Comments

Use of a standard format for documenting compliance with the Nursing Home Act and Regulations is now under consideration. The Department's prime concern is quality of care for the nursing home residents; professional judgement is the vital factor in determining whether compliance with the act and regulations actually correlates with the provision of a good standard of resident care. It should be noted that the branch does have a comprehensive check list which includes in excess of 550 questions. The use of this list is not compulsory for all visits to a nursing home by Institutional Operations Branch, but is used in some instances.

## Recommendation

### 19. NURSING HOME PROGRAM (Section 2.3.4, Page 23)

It is recommended that the Department of Hospitals and Medical Care improve procedures to monitor and ensure compliance, by the nursing homes to which it contributes funding, with the regulations issued pursuant to The Nursing Homes Act.



### Comments

Nursing home standards as laid down in regulations are currently under review. The Minister of Hospitals and Medical Care has appointed a panel of citizens to carry out a comprehensive review of all aspects of the Nursing Home Plan. Once this panel has completed its work and made its recommendations, amendments will be made as required to regulations. Improved procedures will then be developed to ensure compliance.

### Recommendation

20. PAYROLL — SEGREGATION OF DUTIES  
(Section 2.3.5, Page 25)  
(1978-79: No. 27)

It is recommended that, where necessary and appropriate, greater efforts be made to achieve full compliance with the internal control guidelines relating to payroll processing and distribution contained in section 7.3 of the Treasury Department's Manual of Financial Administration, and that where circumstances exist which render compliance with the guidelines unreasonable, formal dispensation be obtained from the Office of the Controller. Before granting such formal dispensation, the Office of the Controller should establish and ensure compliance with alternative compensating controls which are appropriate in the circumstances.

### Comments

A number of Departments made changes to ensure that there was a segregation of duties between staff responsible for the preparation, summarization and approval of payroll information and staff responsible for checking and distributing payroll cheques. The Office of the Controller reviews procedures for conformity to the guidelines and provides specific recommendations concerning compliance or appropriate compensating controls to those who have not adhered to those guidelines.

### Recommendation

21. PROFESSIONAL AND OTHER MANPOWER SERVICE CONTRACTS  
(Section 2.3.6, Page 28)  
(1978-79: No. 28)

It is recommended that under the powers granted by section 79(1) of The Financial Administration Act, 1977, the Treasury Board issue comprehensive directives governing standards of contract administration to be observed when contracts are entered into by or on behalf of the Crown or a Provincial agency. Those directives should not be restricted to professional and other manpower service contracts, but should cover:

- (i) the rendering of all services and
  - (ii) the buying or selling of goods
- by or to the Crown or a Provincial agency.

### Comments

The Office of the Controller has issued guidelines for inclusion of appropriate payment terms in contracts in recent revisions to the Accounting and Financial Control Manual.

These guidelines will be presented to Treasury Board in due course to be formalized in a directive pursuant to Section 79 of The Financial Administration Act, 1977.

### Recommendation

22. PUBLIC COLLEGES  
(Section 2.3.7, Page 28)

It is recommended that management of all Public Colleges, excepting those which have already done so, implement and document procedures to account for and safeguard all fixed assets under their custodianship. The design of such procedures should be co-ordinated between the colleges and the Department of Advanced Education and Manpower. It is considered that the

Department should act quickly to resolve uncertainties related to the transfer of assets to the new colleges.

#### Comments

The Public Colleges have developed procedures to account for and safeguard their fixed assets.

#### Recommendation

**23. PUBLIC COLLEGES**  
(Section 2.3.7, Page 29)

It is recommended that the Public Colleges ensure that adequate time and resources are directed to the establishment and maintenance of accounting records and a comprehensive system of internal control and that management continue to monitor areas where incompatible duties are not properly segregated.

#### Comments

Public Colleges are cognizant of the requirement for good internal control systems. Senior management continuously monitors their staffing requirements in order to maximize the effectiveness of its internal control systems.

#### Recommendation

**24. PUBLIC COLLEGES**  
(Section 2.3.7, Page 29)

It is recommended that the Public Colleges, excepting those which have already done so, design, document and implement suitable control systems for the generation, collection and recording of all revenues. The systems should provide reports designed to support effective supervision by management.

#### Comments

Colleges are designing and implementing improved systems of control over their revenue systems in order to safeguard funds and to provide accurate and timely reports which are reviewed on a regular basis by senior staff.

#### Recommendation

**25. PUBLIC COLLEGES**  
(Section 2.3.7, Page 29)

It is recommended that the Minister of Advanced Education and Manpower clarify the requirements for the approval of and expenditure from financial reserves established by Public Colleges and consult with the Colleges in order to establish broad guidelines related to the nature of acceptable reserve funds.

#### Comments

The Auditor General has stated in his report that "the practice of establishing reserves appears to be within the powers granted under The Colleges Act" and the Minister is satisfied with the current situation provided the administration of such reserves when examined by the Auditor General is found to be in accordance with sound accounting principles.

#### Recommendation

**26. PUBLIC COLLEGES**  
(Section 2.3.7, Page 30)

It is recommended that the Public Colleges establish accounting policies for the capitalization and recording of fixed assets that are appropriate for their purposes and consistent within the college system. In establishing such policies the colleges should consider the impact and relevance of generally accepted accounting principles, and broad guidelines should be developed in conjunction with the Department of Advanced Education and Manpower.

### Comments

The Public Colleges are working with the Department in order to arrive at capitalization policies which serve their individual needs and which meet generally accepted accounting principles.

### Recommendation

#### 27. PUBLIC COLLEGES (Section 2.3.7, Page 30)

It is recommended that those Public Colleges recording outstanding purchase order commitments as current liabilities in their annual financial statements should change their accounting policy related thereto and refrain from reporting such amounts as liabilities and expenditures of the year.

### Comments

The Government agrees with the recommendation and the practice is being phased out.

### Recommendation

#### 28. RECONCILIATION OF BANK ACCOUNTS (Section 2.3.8, Page 40)

It is recommended that the guidelines for the financial control of bank accounts contained in chapter 9, section 1.3 of the Treasury Department's Manual of Financial Administration be expanded to stress the importance of prompt bank reconciliation preparation, and to provide guidelines for the establishment of adequate internal control procedures in connection with the operation of bank accounts. Similarly, those agencies exempted from the application of the Manual by section 2(5) of The Financial Administration Act 1977 where they have not done so already, should establish systems to ensure prompt bank reconciliation preparation and adequate segregation of related staff functions.

### Comments

The Accounting and Financial Control Manual will be updated to take this recommendation into account. Further, the Office of the Controller reviews procedures for assurance that adequate controls are in place.

### Recommendation

#### 29. SALARY PAYROLL (Section 2.3.9, Page 32)

It is recommended, in order to improve the accuracy and authenticity of information produced by the Province's central salary payroll system, that the Office of the Controller, in conjunction with the Personnel Administration Office, ensure that departments and agencies using the system are provided with greatly improved and more comprehensive procedural and staff training documentation. It is essential that this documentation be issued on a jointly coordinated basis by the Treasury Department and the Public Service Commissioner.

### Comments

The Personnel Administration Office and the Office of the Controller have taken several steps to improve the procedures for documentation to be followed by departments:

- a Personnel Manual was re-issued in Sep-80 by the Personnel Administration Office which includes revised comprehensive instructions as to the application of regulations and a procedure of update.
- the Office of the Controller will be responsible for ensuring that the Payroll instructions included in the AFIS User Manual are current and instructive to users. The Office will maintain close liaison with the Personnel Administration Office to ensure that instructions to departments from the two organizations are co-ordinated.
- a committee of several senior managers in the Personnel Administration Office and the



Office of the Controller has been formed and meets regularly to deal with matters that require co-ordination between the two organizations.

- the Office of the Controller reviews the procedures in place for maintenance of payroll documentation in departments as part of its control evaluation activities. Departments are advised of deficiencies in those procedures and recommendations for improvement.

In addition to these steps, the two organizations will continue to assess the need for improved documentation and training with respect to payroll documentation.

#### Recommendation

##### 30. SALARY PAYROLL (Section 2.3.9, Page 32)

It is recommended that the Office of the Controller, in conjunction with the Government Pension Board and the Personnel Administration Office, provide departments and agencies using the Province's central salary payroll system with more definitive guidelines for determining the eligibility of remuneration for pension contribution purposes and establish procedures to ensure compliance with such guidelines.

#### Comments

Recent instructions from the Office of the Controller to all Senior Financial Officers established eligibility of remuneration for pension contributions. As well, changes have been made to the central salary payroll system to assist in determining eligibility. Further changes are being considered.

#### Recommendation

##### 31. SECURITY OVER CENTRALLY STORED COMPUTER DATA AND PROGRAMS (Section 2.3.10, Page 33)

It is recommended that management of departments and agencies, which use the Government's central data processing and storage facility, review the adequacy of their data and program security arrangements. In this regard, user departments and agencies must accept responsibility for assessing the sensitivity and confidentiality of their data and programs, and selecting the most appropriate (including cost-effective) security system options.

#### Comments

The E.D.P. Practices and Guidelines Manual issued by Alberta Government Services identifies standards on security. In addition, the "Control Standards for E.D.P. Systems" manual issued by Alberta Treasury requires that controls be in place to ensure that data is not tampered with or destroyed and that confidentiality of information is safeguarded. The Office of the Controller reviews electronic data processing systems to ensure adherence to these standards.

#### Recommendation

##### 32. TRAVELLING EXPENSES (Section 2.3.11, Page 33) (1978-79: No. 24)

It is recommended that those departments, which have not already done so, should develop and implement guidelines and supporting procedures which reflect the Government's stated policy on reimbursable subsistence and travelling expenses, to ensure that excessive expenditures of public funds do not occur. In particular, care should be taken to acquaint Government employees with the practice of many hotels which, when requested, allow a special discounted government per diem rate. Control could be improved by the maintenance of lists of approved hotels in locations visited regularly by employees and the requirement for prior approval when hotels other than those on the list are to be used. In addition it is suggested that costs to be incurred on major trips could be estimated and approved in advance, and subsequent actual costs compared with the estimates. Material variances between estimate and cost should then be subject to approval by a senior official prior to payment. It is important that expenditure officers are fully aware of the relevant legislation, regulations and guidelines when they are examining claims for reimbursement of travelling expenses prior to approval for payment.

### Comments

The recommendation is repeated since insufficient time has elapsed to enable the Auditor General to evaluate the extent to which control procedures have been improved. As indicated in our response to last year's recommendation, the Accounting and Financial Control Manual has been revised to recommend improved control procedures and departments that incur considerable travel expenses have improved their control procedures. The out-of-province travel hotel guide referred to in last year's response was published for the period 1-Jan-81 to 31-Dec-81.

### Recommendation

33. **FIXED ASSETS**  
(Section 2.4.2, Page 35)  
(1978-79: No. 33)

It is recommended that consideration be given to implementing accounting policies to ensure that all appropriate fixed asset-related costs are charged to the programs, funds and Provincial agencies which derive the benefits from their use. It is suggested that achieving this objective may be facilitated by the use of a revolving fund, or similar vehicle, which could acquire and hold fixed assets having a material effect on future Government operations, and allocate the appropriate costs to programs, funds and Provincial agencies on a usage basis. Moreover, consideration should be given to requiring budgetary control over fixed assets acquired by revolving funds to be similar to that in effect for departmental programs.

### Comments

The Government agrees with the recommendation in principle; however, this involves considerably more than a change in accounting policy. It impacts on the fiscal planning and budgetary processes as well and is the subject of a study by a Treasury task force. Our first concern in this regard will be to charge Provincial Corporations in a consistent and equitable fashion.

The recommendations of the Canadian Institute of Chartered Accountants will be reviewed as well as the practices of other government jurisdictions before extending this chargeback procedure to departmental programmes and revolving funds.

### Recommendation

34. **ESTIMATES FOR CAPITAL PROJECTS**  
(Section 2.4.3, Page 36)

It is recommended that, in the interests of improved accountability to the Legislative Assembly and more effective budgetary control, appropriation bills should be supported by more extensive financial information on major capital expenditure projects. This information should include details of the original estimated costs and scope of each project, cost and scope revisions, costs incurred to the end of the previous fiscal year, current year forecast, expenditures to be appropriated for the next fiscal year, estimated future year costs to completion and the total estimated cost for each project. This recommendation should not be interpreted as suggesting that the Legislative Assembly should approve other than the next fiscal year's expenditures on these projects.

### Comments

It would be contrary to the traditions and customs of the Legislature to include all this information in the printed Estimates of Expenditure; however, during Committee of Supply review such information can be elicited from the Minister responsible by means of questions.

### Recommendation

35. **PROGRAM CHARGES OFFSET AGAINST REVENUE**  
(Section 2.4.4, Page 37)

It is recommended that, in the interest of more consistent financial presentation, all costs in connection with the delivery of the Exploratory Drilling Incentive and the Geophysical Incentive

programs be disclosed as expenditures in the Public Accounts of the Province. This will involve the aggregation of credits allowed and grants paid under these programs.

#### Comments

The Government agrees that consistency in financial reporting is desirable. However, the accounting treatment should also reflect the programme provisions and regulations. The accounting methods now used already achieve that to the extent that credits claimed are offset against revenue and only actual disbursements are budgeted for as expenditure and are treated as such.

#### Recommendation

##### 36. PROGRAM CHARGES OFFSET AGAINST REVENUE (Section 2.4.4, Page 37)

It is also recommended that consideration be given to applying similar financial statement disclosure requirements in other instances where significant program costs have been netted against revenue. For example, provincial taxation revenue has been presented net of Renter Assistance credits, Royalty Tax credits and Taxation Administration fees.

#### Comments

The Government agrees that consideration should be given to the matter of "tax expenditures". The first approach to identification of tax expenditures might be by way of budget discussion papers which is consistent with the approach taken by other governments that are examining this problem.

#### Recommendation

##### 37. UNFUNDED PENSION PLAN LIABILITIES (Section 2.4.5, Page 39) (1978-79: No. 34)

It is recommended that:

###### (a) The Treasury Department continue to:

- (i) obtain actuarial valuations for all pension plans under its administrative responsibility and to have actuarial valuations conducted at least triennially thereafter,
- (ii) obtain computer produced actuarial valuation projections for all pension plans, which can form a basis for annual interim valuations of each plan.

###### (b) Consideration be given to obtaining the necessary authorities to enable the Province to reflect the remaining unfunded liability arising under the various pension plans as a liability in the financial statements of the General Revenue Fund and the Province. This could be accomplished by:

- (i) creating a liability in the financial statements of the General Revenue Fund sufficient to cover the unfunded liability (remaining after establishment of the \$1.1 billion) for past service of employees, either as the liability becomes known or on a deferred basis over a planned period of time,
- (ii) thereafter creating a liability in the financial statements of the General Revenue Fund for any increase in the remaining unfunded liability as revealed by successive actuarial valuations or actuarial projections, again allocating this sum to government programs as an additional manpower cost.

If the unfunded liability is to be shown as a liability in the financial statements of the General Revenue Fund and the Province, the assumptions used in arriving at the valuations should be disclosed in the financial statements.

#### Comments

An effort is being made to have all Pension Plans actuarially evaluated by April 1982. The information available now is not sufficiently current to reflect a liability in the financial statements of the General Revenue Fund or of the Province. The private sector is currently



studying the problem of accurately determining liability (as a result of a choice of actuarial methods and procedures). Therefore it is appropriate to defer the reporting of this liability on financial statements. Available information will continue to be disclosed in notes to the financial statements. It should also be noted that the Government, with implementation of the Pension Fund Act, has, in addition to providing funds to reduce the liability, discontinued taking employee contributions into revenue and deposits both employer and employee contributions into the Pension Fund monthly, after payment of current costs.

#### Recommendation

38. ALBERTA ENVIRONMENTAL RESEARCH TRUST  
(Section 2.5.1, Page 40)

It is recommended that the Board of Trustees of the Alberta Environmental Research Trust instruct the Administrative Secretary to close the two bank accounts operated by the Trust at an Edmonton Treasury Branch, in accordance with the Provincial Treasurer's directive.

#### Comments

The bank accounts operated by the Trust will be closed.

#### Recommendation

39. DEPARTMENT OF ENERGY AND NATURAL RESOURCES — MAIN ACCOUNTS  
RECEIVABLE SYSTEM  
(Section 2.5.2, Page 44)

It is recommended that the Department of Energy and Natural Resources continue its efforts to recover from the data conversion and operating difficulties in its Main Accounts Receivable System (MARS). This should include a review of the system to ensure that it is capable of meeting the accounting and management information requirements of the Department and the Treasury Department. In particular, steps should be taken to ensure that the system is able to produce revenue reports in an accurate and timely manner.

#### Comments

The Main Accounts Receivable System (MARS) has been thoroughly analyzed and a two-year work plan developed to enhance the system's capability to meet the accounting and management information requirements of Energy and Natural Resources and Treasury. The first year of the work plan, now well underway, will emphasize accounting and internal control requirements. In addition, major emphasis will be placed on the correction of data conversion and operating difficulties. The second year of the work plan will focus on management information requirements.

Considerable progress has been made in correcting operating difficulties and data conversion errors. Revenue reports to meet departmental and Treasury requirements are being produced accurately and on time.

#### Recommendation

40. DEPARTMENT OF ENERGY AND NATURAL RESOURCES — MAIN ACCOUNTS  
RECEIVABLE SYSTEM  
(Section 2.5.2, Page 44)

It is recommended that the Department of Energy and Natural Resources should continue to seek to obtain and retain sufficient accounting, systems and management skills to enable it to exercise adequate control over the development and operation of its accounting and management information systems.

#### Comments

The Department, utilizing a consulting firm and internal resources, completed a detailed review of its Finance and Administration organization. A completely revamped organization has been developed with particular emphasis on the accounting function together with systems and managerial capabilities. A group has been established in the organization with responsibility

for financial planning and control, including the development of financial systems. Classification and recruitment is underway with a view to finalizing the new organization. Approximately 17 man years through contract personnel are being utilized during the transition period.

#### Recommendation

41. DEPARTMENT OF ENERGY AND NATURAL RESOURCES — MAIN ACCOUNTS RECEIVABLE SYSTEM  
(Section 2.5.2, Page 44)

It is recommended that when any Government (user) entity embarks on the development and implementation of an electronic data processing system, senior management of the entity must recognize its primary and overriding responsibility for the system. Delegation of any or all development or implementation duties to outside parties or development teams cannot absolve an entity's management from its responsibility for ensuring that development proceeds in a logical and appropriate manner. Typically, management must ensure that the development and implementation processes include:

- detailed documentation of the user entity's needs
- detailed documentation of the system's objectives.
- detailed documentation of the statutory, financial and internal controls to be incorporated into the system.
- an appropriate amount of pre-implementation system testing of the system by the programming team or user entity.
- an appropriate amount of acceptance testing and formal acceptance of the system by the user entity.
- properly planned and executed data conversion prior to post implementation processing.
- where possible, a reasonable period of parallel processing before the system being replaced is discontinued.
- the provision of adequate and detailed (technical) systems documentation.
- ensuring that other continuing manual or EDP systems will interface satisfactorily with the new system after it is implemented.
- ensuring that all computer, accounting or other staff receive adequate documentation on the new system and are properly trained in its use.

As each phase or sub-phase of the development project is completed, it should be subject to formal approval or acceptance by a senior administrative official of the entity. Accordingly, where EDP systems are used extensively, it is essential that senior administrative officials either have or acquire adequate knowledge of EDP processes, controls and project management.

#### Comments

Pursuant to Treasury Board Directive 07 81, the Office of the Controller has outlined the standards for electronic data processing (E.D.P.) systems in its manual "Control Standards for E.D.P. Systems". This manual outlines control standards for the development of electronic data processing (E.D.P.) systems and emphasizes involvement of key user management in the development process.

#### Recommendation

42. DEPARTMENT OF THE ATTORNEY GENERAL  
(Section 2.5.3, Page 45)

It is recommended that the Department of the Attorney General seek legislative authority to collect lottery licence fees.

### Comments

Order-in-Council 124/81 specified the Alberta Gaming Commission as a licence issuer for the conduct of lotteries. The Alberta Gaming Commission has subsequently approved a Licencing Policy Guideline which sets out various licencing terms and conditions including licence fees.

### Recommendation

43. HEALTH CARE INSURANCE FUND  
(Section 2.5.4, Page 46)  
(1978-79: No. 25)

It is recommended that measures be taken by the Department of Hospitals and Medical Care to reduce to a minimum the backlog in monthly reconciliations of Health Care Insurance Fund premiums charged with premiums received from employers, and that efforts be continued to implement revised computer systems in order to facilitate more efficient and timely reconciliation procedures.

### Comments

The department has suffered from a shortage of skilled and experienced clerical staff in the area of group premium reconciliations. In-house training programmes have been introduced to provide special training to staff in group reconciliations. This has reduced the backlog.

The department is increasing its efforts to revise computer systems in order to facilitate more efficient and timely reconciliation procedures.

### Recommendation

44. PENSION ADMINISTRATION  
(Section 2.5.5, Page 46)

It is recommended that the Treasury Department continue with its efforts to eliminate the accounting and financial control deficiencies in the operations and accounting records of the Pension Administration.

### Comments

The accounting and data processing functions of Pension Administration were reorganized. The current accounting practices are to be further reviewed with the appointment of a Head of Accounts. Also, the Office of the Controller has reviewed the scope and adequacy of the financial controls in place, and specific plans for improving financial controls have been defined and will be implemented.

### Recommendation

45. THE RESEARCH COUNCIL OF ALBERTA  
(Section 2.5.6, Page 51)

It is recommended that the Research Council of Alberta take immediate steps to eliminate the pervasive and serious financial control problems in its fixed assets, sponsors' accounts, patents, accounts receivable, expenditure and payroll accounting systems.

### Comments

Financial control problems in sponsors' accounts, patents, expenditure and payroll accounting systems have been corrected in the past year. Improvements are underway in fixed assets and accounts receivable. In addition a financial and administration development plan, including the development of a new financial accounting and reporting system, is currently under review.

### Recommendation

46. AUDIT OF PROVINCIAL INCOME TAXES  
(Section 2.6.1, Page 52)

It is recommended that the Provincial Treasurer either prepare an estimate, or obtain and review the federal government's estimate, of unassessed income taxes (tax gap) in order to facilitate an evaluation by the Treasury Department of the adequacy and appropriateness of the



compliance and enforcement procedures employed by the Department of National Revenue-Taxation in the collection of Alberta income taxes.

#### Comments

The Government recognizes the Auditor General's concern with evaluating the collection activities of Revenue Canada. In conjunction with Recommendation #47, the government will promote improved auditing of tax records by the Auditor General of Canada and the provincial auditors. The Government will work with other provincial governments in assessing the results of those audits and the best methods by which the collection activities of Revenue Canada can be evaluated.

#### Recommendation

**47. AUDIT OF PROVINCIAL INCOME TAXES**  
(Section 2.6.1, Page 52)  
(1978-79: No. 35)

It is recommended that consideration be given to eliminating the circumstances which presently restrict the Auditor General of Alberta's right of access to certain taxation records and, thereby, inhibit his ability to satisfy the reporting responsibilities under The Auditor General Act. These restrictions effectively preclude the Auditor General's right, under section 18(1) of the tax collection agreement, to audit income taxes assessed by the Government of Canada and payable to the Province of Alberta. Similarly, they prevent audit examination of records relating to such tax refund programs as renter assistance credits and royalty tax rebates and credits. It is acknowledged, however, that a multiplicity of audits of the federal government's records by provincial legislative auditors may not be desirable. Accordingly, subject to the concurrence of the Auditor General of Canada, consideration should be given to seeking amendments to the tax collection agreement which would, in addition to removing the access restrictions imposed, enable the Auditor General of Alberta to place reliance upon an annual audit report by the Auditor General of Canada relating to income taxes payable to the Province of Alberta. The relationship between the Auditors General of Canada and Alberta should conform to the essence and spirit of the recommendations contained in Section 6930 of the C.I.C.A. Handbook relating to reliance on another auditor.

#### Comments

The Provincial Treasurer will raise the matter of obtaining appropriate rights of access to taxation records during the federal-provincial negotiations on the tax collection agreement. This access would be with the view to promoting a joint audit with the Auditor General of Canada and the various Provincial Auditors General.

#### Recommendation

**48. GENERAL OBSERVATIONS**  
(Section 2.7.4, Page 53)

It is recommended that where appropriate, in the interests of improving technical skills and managerial competence, consideration be given to developing for middle and senior managers specially tailored courses featuring exacting examinations, and that satisfactory performances in related course examinations be a criterion in determining a manager's suitability for promotion. It is further suggested that overall managerial competence would be improved by a system designed to combine the above and other definitive promotional and demotional standards with meaningful and critical performance evaluation.

#### Comments

The Personnel Administration Office has explored the integration of "exacting examinations" into courses for middle and senior managers. While such examinations may be appropriate for technical skills training, they appear to be less useful as a means of establishing managerial competence.

While examinations may be used to measure a person's knowledge of management theory, the ability to apply that theory as a practicing manager is probably best measured through

performance evaluation. The establishment of a result based performance evaluation system for managers was a major priority of the P.A.O. during the mid 1970's. The system, now in place, is based on a uniform June 1st-May 31st cycle and tied to the annual review of individual salaries.

With respect to technical skills training, departments rely, and will continue to rely, upon certification by outside bodies. In view of the shortage of qualified financial managers, for example, Alberta Treasury is exploring the viability of a trial program in co-operation with the N.A.I.T. and the P.A.O. through which current employees could upgrade their knowledge and skills. Such a program would require examinations and the students could then go on to qualify for an accepted accounting designation.

#### Recommendation

49. GENERAL OBSERVATIONS  
(Section 2.7.10, Page 55)  
(1978-79, No. 36)

It is recommended that, where the level of financial activity is significant, a position of senior financial officer, reporting directly to the deputy minister of a department or chief executive officer of a Provincial agency, be established. Since senior financial officers should be properly qualified accountants and managers, their positions should be classified accordingly.

#### Comments

The Accounting and Financial Control Manual issued by the Office of the Controller has been updated to clarify the roles and responsibilities of the departmental senior financial officer. It notes that the senior financial officer should report directly to the deputy head. If he is not an accountant, he should have a thorough knowledge of the principles of financial management and control and should have qualified accountants in the organization to advise him.

#### Recommendation

50. GENERAL OBSERVATIONS  
(Section 2.7.10, Page 55)  
(1978-79, No. 37)

It is recommended that the concurrence of the Controller (or a committee on which he is represented), after assessing the competence of the individual concerned, be made a prerequisite to the appointment of senior financial officers of departments and Provincial agencies (other than those exempt under section 2(5) of The Financial Administration Act, 1977 and entities defined as commercial enterprises by the Provincial Treasurer.). This concurrence may not be necessary where the proposed appointee had passed specified examinations in accounting and management (See also recommendation No. 47) and/or has demonstrably adequate related experience.

#### Comments

As stated in the response to the Auditor General's report of 1978-79, the final selection of a senior financial officer should be the responsibility of the deputy head of the department. If, however, as a result of the Controller's evaluation activities, the Controller feels that the senior financial officer is not adequately carrying out his responsibilities, either because he is not suitably qualified or for other reasons, he should advise the deputy head of the department of his concerns.

#### Recommendation

51. GENERAL OBSERVATIONS  
(Section 2.7.10, Page 57)  
(1978-79: No. 38)

It is recommended that, where the level of financial activity is significant, a position of chief internal auditor, reporting directly to the deputy minister of a department or chief executive officer of a Provincial agency, be established. Since chief internal auditors should be properly qualified, their positions should be classified accordingly.

## Comments

Recent revisions to the Accounting and Financial Control Manual state in part:

"Internal financial audit units should be established only when the size and complexity of the financial management function warrants it. Factors that should be considered in assessing the need for an internal financial audit function are: the dollar value of expenditures and revenues; the degree to which financial activities are decentralized; the complexity of expenditure and revenue transactions and the potential for error or fraud; the number and complexity of administered revolving or regulated funds; and the administration of financial computer systems in processing expenditure and revenue transactions.

Where practicable, the internal financial audit unit should report to the deputy head. If this is not feasible, the internal financial audit unit should report to a senior executive officer who reports to the deputy head, or have access to the deputy through an Audit Committee or other appropriate reporting arrangement. . . . The internal financial audit unit should not report to an officer whose major responsibility is the financial administration of the department, as such a reporting relationship may in reality or in the perception of other divisional management, lead to undue bias in favor of the financial administration. The internal financial audit unit may report to a senior executive officer whose partial responsibility includes the department's financial administration."

As part of its evaluation activities, the Office of the Controller comments to departments on the advisability of forming an internal audit group and the appropriateness of the reporting relationships.

## Recommendation

### 52. GENERAL OBSERVATIONS (Section 2.7.13, Page 57) (1978-79, No. 39)

It is recommended that the concurrence of the Controller (or a committee on which he is represented), after assessing the competence of the individual concerned, be made a prerequisite to the appointment of chief internal auditors of departments and Provincial agencies (other than those exempt under section 2(5) of The Financial Administration Act, 1977 and entities defined as commercial enterprises by the Provincial Treasurer). This concurrence may not be necessary where the proposed appointee had passed specified examinations in auditing and management (See also recommendation No. 47) and or has demonstrably adequate related experience.

## Comments

The Controller issued standards for qualifications of internal auditors in recent revisions of the Accounting and Financial Control Manual.

As stated in the response to the Auditor General's report of 1978-79, the final selection of a chief internal auditor should be the responsibility of the deputy head of the department. If, however, as a result of the Controller's evaluation activities, the Controller feels that the chief internal auditor is not adequately carrying out his responsibilities, either because he is not suitably qualified or for other reasons, he will advise the deputy head of the department of his concerns.

## Recommendation

### 53. GENERAL OBSERVATIONS (Section 2.7.13, Page 57) (1978-79: No. 40)

It is recommended that the Office of the Controller, on behalf of the Provincial Treasurer, establish and monitor the application of standards, techniques and methodologies to be adhered to by internal audit groups of departments and Provincial agencies (other than those exempt under section 2(5) of The Financial Administration Act, 1977 and entities defined as commercial enterprises by the Provincial Treasurer). It is further recommended that Provincial



agencies exempt under section 2(5) of The Financial Administration Act, 1977 and entities defined as commercial enterprises by the Provincial Treasurer, establish internal audit functions with similar standards, techniques and methodologies to those not so exempt.

Recommendation No. 41 (1978-79) is not repeated herein though it is believed that, as a minimum, both the Controller and the Auditor General should have access to, and the right to obtain on request, copies of all internal auditors' reports.

#### Comments

The Office of the Controller issued standards for the operation of an internal audit function in recent revisions to the Accounting and Financial Control Manual. As part of its control evaluations activities, the Office of the Controller reviews the adequacy of the internal audit function in departments and adherence to standards included in the Accounting and Financial Control Manual. The Controller advises the deputy head when standards are not being met.

The Controller's Office reviews internal audit reports as required in order to carry out its evaluation activities.

#### Recommendation

##### 54. GENERAL OBSERVATIONS (Section 2.7.14, Page 58)

It is recommended that the objectives of each program be stated in as specific a manner as possible, with quantitative data being provided wherever practicable, as measures of the intended results to be achieved by the expenditure of the funds requested for the program. Upon completion of the fiscal year, reports should be prepared on behalf of the responsible Minister evaluating the achievements resulting from the expenditure of funds from a program in terms of the objectives and quantitative data given in the estimates. These reports should result from an organized, documented, systematic evaluation of program activities and would be subject to audit by the Auditor General. Subsequently the reports would be laid before the Legislative Assembly by the Minister as a part of his accountability reporting.

#### Comments

The Estimates of Expenditure currently include a statement of programme objectives. In addition to the financial reporting provided in the Public Accounts, showing actual expenditures compared to financial plans, quantitative and descriptive data on programme activities is included in departmental annual reports which are tabled in the Legislature. The Government will give careful attention to the results of the Auditor General's audits of management control systems to identify areas where this data could more accurately measure programme achievements.

#### Recommendation

##### 55. THE AUDITOR GENERAL AS AUDITOR (Section 4.1.8, Page 81) (1978-79: No. 3)

It is recommended that consideration be given to classifying as a regulated fund, the money collected and held by the partnership which manages the Western Express Lottery in Alberta, or alternatively, requiring that money collected is subject to audit by the Auditor General as a condition of the license.

#### Comments

The Western Canada Lottery, Alberta Division has been directed by the Minister of Culture to make its books and records available to the Auditor General and the Provincial Treasurer for audit to determine compliance with the conditions of licences. Also a statement of lottery revenues and their distribution will be presented in the Public Accounts.

APPENDIX III  
ALBERTA LEGISLATURE  
OFFICE OF THE AUDITOR GENERAL  
FINANCIAL STATEMENT  
MARCH 31, 1981

AUDITORS' REPORT

TO THE CHAIRMAN,  
SELECT STANDING COMMITTEE ON LEGISLATIVE OFFICES

We have examined the statement of revenue and expenditure of the Office of the Auditor General for the year ended March 31, 1981. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, this financial statement presents fairly the revenue and expenditure of the Office for the year ended March 31, 1981 in accordance with the disclosed basis of accounting described in Note 2 to the financial statement.

Edmonton, Alberta  
October 6, 1981

*Sau, Zimmer, Stewart & Co.*  
CHARTERED ACCOUNTANTS

**ALBERTA LEGISLATURE**  
**OFFICE OF THE AUDITOR GENERAL**  
**STATEMENT OF REVENUE AND EXPENDITURE**  
**FOR THE YEAR ENDED MARCH 31, 1981**

	<u>1981</u>	<u>1980</u>
REVENUE		
Audit fees	\$ 927,250	\$ 438,875
Miscellaneous	21,321	12,480
	<u>948,571</u>	<u>451,355</u>
EXPENDITURE		
Salaries and wages	4,104,626	3,422,570
Professional services	821,422	590,612
Travel expenses	242,189	159,831
Data processing and services	130,707	200,114
Employee benefits	109,641	85,513
Materials and supplies	60,403	69,449
Equipment purchases	46,551	49,237
Allowances and supplementary benefits	43,118	46,932
Grant to the Canadian Comprehensive Auditing Foundation	35,000	—
Rentals	20,442	35,337
Repairs and maintenance	18,525	9,206
Hospitality	2,835	2,377
Freight and postage	2,792	2,851
Staff seminar	1,971	—
Telephone and communications	1,286	1,411
Advertising	—	6,267
Insurance	—	46
	<u>5,641,508</u>	<u>4,681,753</u>
EXCESS OF EXPENDITURE OVER REVENUE FOR THE YEAR	4,692,937	4,230,398
CONTRIBUTION FROM THE PROVINCE OF ALBERTA	4,692,937	4,230,398
	<u><u>\$ Nil</u></u>	<u><u>\$ Nil</u></u>

The accompanying notes are part  
of this financial statement.



**ALBERTA LEGISLATURE**  
**OFFICE OF THE AUDITOR GENERAL**  
**NOTES TO THE FINANCIAL STATEMENT**  
**MARCH 31, 1981**

**Note 1 Authority**

The Office of the Auditor General operates under the authority of The Auditor General Act, Chapter 56, Statutes of Alberta 1977.

**Note 2 Significant Accounting Policies and Reporting Practices**

This financial statement has been prepared in accordance with generally accepted accounting principles except that purchases of equipment are charged to expenditure in the year of purchase.

The operations of the Office of the Auditor General are financed from the General Revenue Fund of the Province and accordingly all receipts have been credited to the General Revenue Fund and all payments have been made therefrom. As the financial transactions of the Office of the Auditor General are a part of the General Revenue Fund it is not considered meaningful to present a separate balance sheet.

The Office of the Auditor General is not charged with the costs relating to accommodation, furniture and fixtures and certain administrative services. These costs are reflected in the programmes of the supplying departments.

**Note 3 Audit Fees**

The Office of the Auditor General does not operate on a cost recovery basis. However in accordance with section 14 of The Auditor General Act audit fees are charged for professional services rendered to organizations which are not financed primarily from the General Revenue Fund of the Province.

**Note 4 Comparative Figures**

The 1980 figures have been restated where necessary to conform to the 1981 presentation.

**Note 5 Approval of Financial Statement**

This financial statement was approved by management on August 18, 1981.











